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Vietnamese Tax on Dividends Paid to Overseas Investors

Joining the Trans Pacific Partnership ("TPP") will open up potential opportunities for both Vietnamese and foreign investors. Vietnam seems to be a more attractive market, relatively high dividend yields and a country that should benefit the most from TPP. However, foreign investors need to consider other regulatory factors, in Vietnam, that affect their net income. One important factor that foreign investors should consider carefully, when investing in Vietnam, is tax on dividends, which ultimately impacts their net return on investment.

Principle of Paying Dividends

Under current Vietnamese regulations, dividends are defined as the enterprise's net profit paid on each share, after the enterprise has completed all its financial obligations with related parties on an annual basis, comprising:

(i) fulfillment of all taxes and other compulsory finance obligations to state owned agencies;
(ii) making appropriate reserve funds for previous losses or possible losses; and
(iii) after paying all dividends, the enterprise is still able to guarantees its financial capacity for payment of all current payables.

How are Dividends Taxed in Vietnam?

In Vietnam, dividends can be paid in cash, shares or other properties in accordance with the provisions of the company's charter.

It is worth noting that dividends paid to corporate investors are exempted from tax in Vietnam regardless of whether they are foreign or domestic corporate entities. However, individual investors are taxed differently depending upon the time and form of dividend payment governed by the Vietnamese Personal Income Tax ("PIT") regime.

Dividends are taxed separately from the individual investors' other income and on a transaction basis. Specifically, dividends paid to foreign individual investors are taxed at a flat rate without any consideration of their tax-resident status in Vietnam.

Dividends paid in cash to foreign individual investors ("FII") are taxed at 5% at the time the dividend is paid.

Nevertheless, if the dividends are paid by shares, the FII are not required to pay PIT at the time the dividend is paid by the issue of shares. When selling shares previously issued by way of dividend, investors will have to declare and pay PIT on two types of income, i.e. income from capital assignment and income from capital investment with the PIT rates of 0.1% and 5% on the assigned price, respectively. It is noted that in case the assigned price is lower than either the par value or the market price, the taxable income shall be calculated by reference to the market price at the transaction time determined by the tax authority.

Dividends paid by way of other properties, has rarely happened in Vietnam. If paid by way of goods and inventories, they are required to be converted into cash equivalent for PIT purposes.

Finally, for dividends paid by bonds, there is still a lack of guidance in the case of bonds. Logically and similarly to dividends paid by shares, PIT should not be imposed upon receipt of bonds. Instead, the FII are subject to PIT when earning interest and transferring bonds at a later date.

Which are the Vehicles for the Vietnamese Tax Authorities to Collect PIT on Dividends?

As mentioned above, depending on the dividend payment status, there are various forms to be filed at different times resulting in different withholding parties and filing times.

In principle, the dividend-payer is responsible for withholding the associated PIT on dividends prior to payment, then, filing the PIT returns and issuing the PIT withholding certificates to the FII as the proof of the fulfillment of the PIT obligations.

However, if the FII receives the dividend by way of shares and subsequently earns income from selling them, one of the following parties will be responsible for those obligations: the security company; the commercial bank holding the investment account; the authorized fund manager of the investor; or the share assignee.

How to Comply with Vietnamese PIT Laws

Vietnam has had a PIT regime for a long time, however, it was still an ordinance. It was upgraded and passed into law with effect from 2009, thus, it is still in the process of improvement and development. As a result, there have been several amendments and supplements to the PIT law up to now, including the PIT rate on dividends, PIT filing time/forms, etc. Any late or wrong PIT filing always leads to the imposition of associated penalties. Therefore, besides studying an investee's financial status, the FII should study their legal status to ensure that they fully comply with local tax laws. In addition, the FII should require them to issue the legitimate PIT withholding certificate for evidence of the completion of Vietnamese PIT obligations.

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