Update on new regulations and important tax policies

October 2020

Content

Vietnam is drastically implementing to issue and re-enforcing the policies, including tax reduction, tax extension policies, to support the business community overcoming difficulties as well as enhance the domestic business environment to promote investment attraction. In this month Tax Newsletter, Grant Thornton Vietnam would like to update important policies which are recently issued.

- Resolution No.124/NQ-CP issued by Government on Government's action plan on implementation of national industries development plan
- Decree 114/2020/ND-CP regulating the implementation of the Resolution No. 116/2020/QH14 of the National Assembly on 30% reduction of CIT payable of the year 2020
- Decree No.109/2020/ND-CP on Extension Special Consumption Tax payment duration for domestically manufactured automobiles
- VAT for processing service provided by EPEs to domestic enterprises
- Some Office Letters on Guidance on new standard for dependent registration and family deduction.

1. Resolution No.124/NQ-CP issued by Government on Government's action plan on implementation of national industries development plan

On 03 September 2020, the Government had issued Resolution No. 124/NQ-CP on Government's action plan on implementation of Resolution No.23-NQ/TW dated 22 March 2018 of Political Bureau on implementation of national industries development plan by 2030, with a vision to 2045. Whereby:

The Government sets specific target by 2030, the industrial ratio in GDP will reach over 40%; the proportion of processing and manufacturing industries in GDP reaches about 30%, of which manufacturing industries reaches over 20%. The proportion of high-tech industrial product value in the processing and manufacturing industries reaches at least 45%. The growth rate of value added industrial is on average over 8.5%/year, of which the processing and manufacturing industries reaches over 10%/year on average.

In order to achieve the target, the Government assigns the tasks to authorities such as the Ministry of Planning and Investment, the Ministry of Finance, etc. to formulate investment incentive policies with a focus by sector or field, associated with business contributions. Accordingly, incentive policies are issued according to the principle that the level and duration of incentives of FDI projects will depend on the level of domestic value added creation and the accompanying conditions. At the same time, to research, amend and supplement tax incentive policies for industries with priority for development.

Besides, in the period of 2021-2025, the Ministry of Finance and relevant ministries are expected to amend and supplement some important laws such as the Law on Corporate Income Tax, the Law on Export Tax and Import Tax, Law on Value Added Tax, as well as building new Property Tax Law, etc.

The Resolution took effect from the signed date.

2. Decree 114/2020/ND-CP regulating the implementation of the Resolution No. 116/2020/QH14 of the National Assembly on 30% reduction of CIT payable of the year 2020

On 25 September 2020, the Government issued Decree 114/2020/ND-CP regulating the implementation of Resolution No. 116/2020/QH14 of the National Assembly on reduction of corporate income tax ("CIT") payable of the year 2020. Some key points of the Decree 114 are as below:

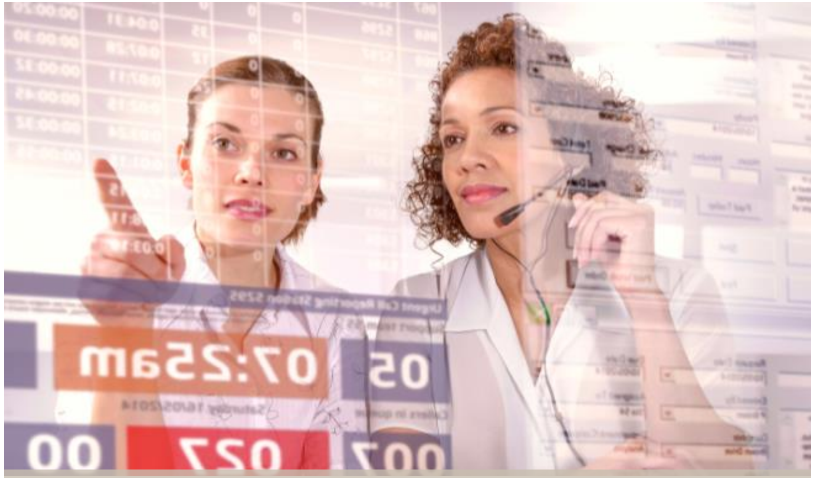
- Reduce 30% in CIT payable of the year 2020 for the enterprise having total revenue in 2020 not exceeding VND200 billion.

- Total revenue in 2020 as a basis for determining the eligible enterprises for tax reduction is the total revenue of the enterprise for CIT period of 2020 of the enterprise including all sales, processing and supply service costs including price subsidies, surcharges and supplements to which enterprises are entitled in accordance with the Law on Corporate Income Tax and its guiding documents, including other incomes such as income from capital transfer, transfer of real estate or transfer of investment project, etc..

- If the enterprise has expected the total revenue in the year 2020 not exceeding VND200 billion, the enterprise shall determine quarterly temporary payments which equal to 70% of CIT payable amount of the quarter.

- If the enterprise applies fiscal year different from the calendar year, the CIT calculation period shall be determined according to the fiscal year in accordance with the Law on Corporate Income Tax and its guiding documents. For this content, the Company should pay attention to follow-up with further guidance from the Ministry of Finance/General Department of Taxation to determine the appropriate tax reduction amount in the year 2020 for each specific case.

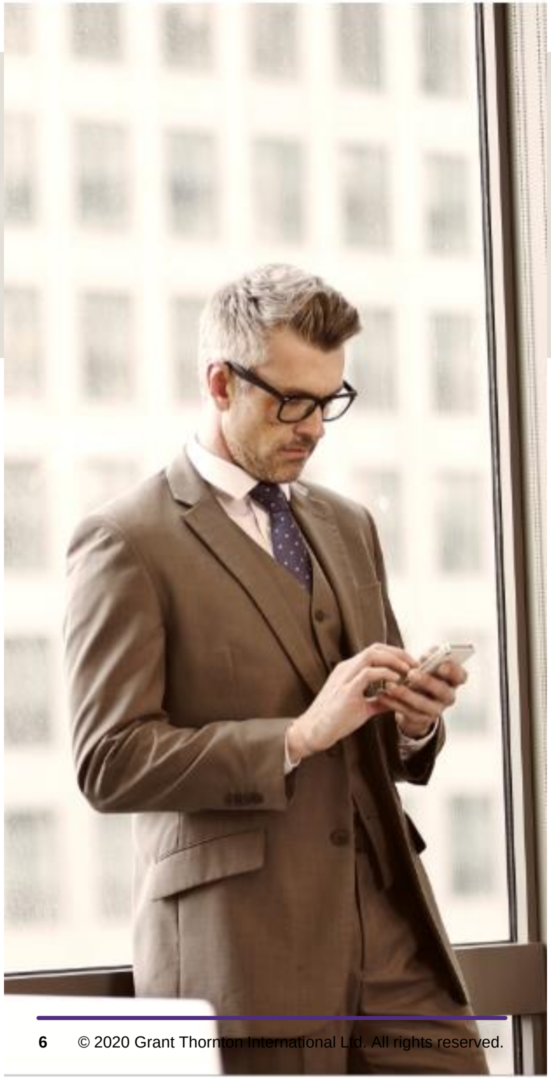
3. Decree No.109/2020/ND-CP on Extension Special Consumption Tax payment duration for domestically manufactured automobiles



On 15 September 2020, the Government had issued Decree No.109/2020/ND-CP on Extension Special Consumption Tax (SCT) payment duration for domestically manufactured automobiles, specifically:

- Extension tax payment deadline for SCT payable incurs in the tax period of March, April, May, June, July, August, September and October 2020 for domestically manufactured or assembled automobiles.
  - Extension SCT payable payment incurs in March 2020 to 20 September 2020
  - Extension SCT payable payment incurs in April 2020 to 20 October 2020
  - Extension SCT payable payment incurs in May 2020 to 20 November 2020
  - Extension SCT payable payment incurs in June to October 2020 to 20 December 2020
- Tax payer eligible to the extension is required to declare as prescribed but does not needs to pay the SCT payable incurs yet. Tax payer will send a Letter requesting for deadline extension of SCT payment at the same time with Tax return Submission or no later than 30 September 2020.

The Circular took effect from 15 September 2020.



4. VAT for processing service provided by EPEs to domestic enterprises

Regarding the provision of processing services of export processing enterprise (“EPE”) to domestic firms, there have recently been some guidelines issued by the General Department of Taxation and local tax authorities on this issue, specifically as follows:

- ***Office Letter No. 3231/TCT-CS issued by General Department of Taxation on 10 August 2020***
  If the processing activities of the EPE are not related to the trading of goods and activities directly related to the trading of goods in Vietnam, the domestic enterprise shall carry out customs procedures as prescribed and is considered as the case of ordering goods processing overseas. The EPE uses the sale invoice when receiving the processing fee, clearly stating "For organizations and individuals in the non-tariff zone" according to current regulations

- ***Office Letters No. 81739/CT-TTHT and 81740/CT-TTHT issued by Hanoi Tax Department***
  In case the company is an EPE signs a contract to process for a domestic enterprise, the company must be licensed to do processing activities with a domestic enterprise. These activities are subject to VAT. The company must separately account and register with the tax office to declare and pay VAT separately. These instructions do not clarify whether custom declaration is required or not for these cases.

As the regulations on this issue are still not really clear, in order to effectively manage the tax risks that may arise, we recommend that if you have any issue during implementation, please contact Grant Thornton for further advice.

5. Some Office Letters on Guidance on new standard for dependent registration and family deduction.

On 12 August 2020, the Bac Ninh Tax Department issued Official Letter No. 2455/CT-TTHT on the new family deduction of the PIT Law under Resolution No. 954/2020/UBTVQH14, specifically:

In case the Company performs PIT finalization on behalf of the taxpayer to terminate the contract and left in July 2020 and the taxpayer has a cross year tax finalization period from 2019 to 2020, the family relief rate from January 2020 onwards is determined according to the provisions of Resolution No. 954/2020/UBTVQH14 which is VND11,000,000/month for the individual and VND4,400,000/month for each dependent.

If the tax declaration support system has not yet updated for PIT finalization return according to the new family relief according to the provisions of Resolution No. 954/2020/UBTVQH14, the company submits the paper finalization return to the managing tax office. We know that a number of other local tax authorities also agree with the enterprises to submit paper finalization returns to the tax authority during the period when the tax declaration software has not been updated.

Also related to the issue of the foreigner's annual PIT finalization, Dong Nai Tax Department has a guidance Office Letter No. 7950/CT-TTHT dated 24 August 2020, whereby:

For the first tax year from August 2019 to July 2020, the deduction rate will follow the old regulations in Circular 111.

For the first tax year from August 2019 to July 2020, the deduction rate will follow the old regulations in Circular 111.

However, because these are the instructions of the local tax departments, depending on the location of the Company, you should discuss with the managing tax office directly before implementing to minimize risks for tax declaration and payment.

Contact

Please contact our professional advisors at Grant Thornton Vietnam for assistance with taxation, accounting, transfer pricing, labour, investment and customs as well as other legal issues you may have during your business operation.

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