A Practical Guide To Corporate Tax And Compliance Work In Vietnam

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A STEP-BY-STEP GUIDE TO CORPORATE TAX AND COMPLIANCE WORK IN VIETNAM

It is essential to understand how taxes can affect your company and business and what kind of taxes you and your company must pay to the Vietnamese government while running a business and earning revenue in the country.

For enterprises, the most common types of taxes in Vietnam that you must familiarize yourself with include:

- Corporate income tax (CIT)
- Value added tax (VAT)
- Personal income tax (PIT)

In this guide, we will demonstrate and elaborate on Vietnam's tax system structure and discuss tax rates and tax obligations, to give you a clear, accurate picture of what to expect when doing business in Vietnam.

What is the Tax structure in Vietnam?

As we were saying, the Law on Enterprise imposes tax obligations on all business enterprises incorporated in Vietnam. These duties include a variety of accounting functions: paying taxes, filing and submitting financial statements, conducting audits, and much more.

For companies that are partially or even 100% foreign-owned, once it is incorporated, it will be treated as a Vietnamese tax resident. Therefore, the company has to fulfill its obligations as a resident taxpayer.

Failure to comply with tax regulations can result in the suspension of your business or even worse, dissolution and liquidation.

CORPORATE INCOME TAX

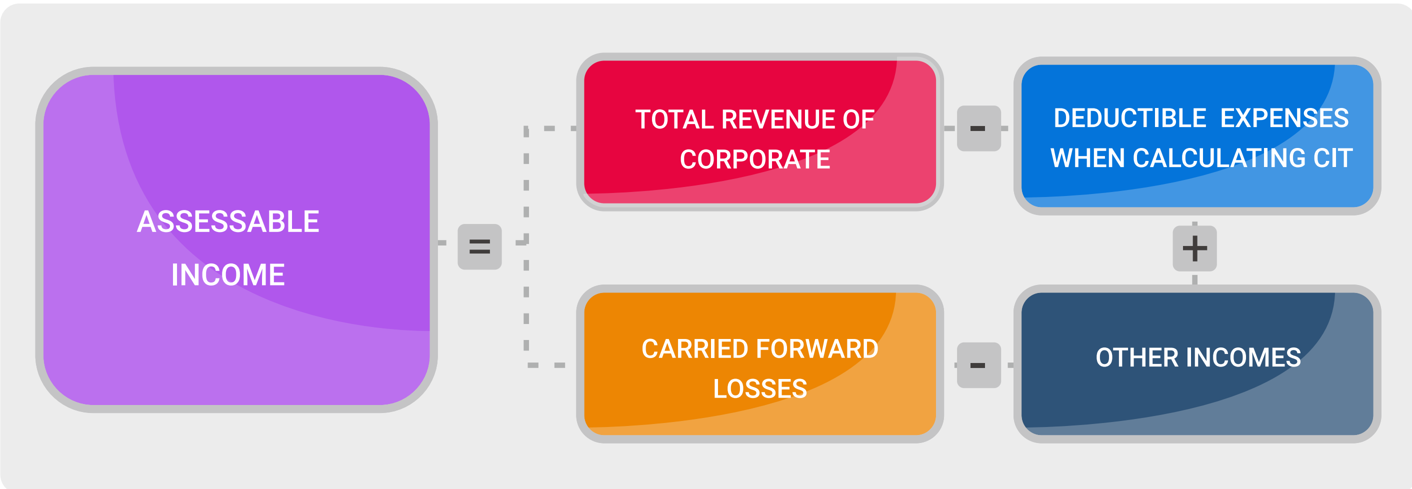
In Vietnam, corporate income tax is normally levied at a flat rate of 20%. This rate is in line with other Southeast Asian countries and relatively low compared to China or India. Moreover, businesses belonging to certain industries and/or operating in specific locations receive tax deductions. These incentives are determined based on your business's geography, industry, and the exact conditions of projects you undertake.

There are cases where CIT is higher than the standard rate, however. CIT on exploration and extraction of petroleum in Vietnam is from 32% to 50%. For rare and valuable resources such as precious metals and minerals, it goes up to 50%. If at least 70% of the allocated area is located in geographical regions with difficult socio-economic conditions, the rate may be reduced to 40%. It's important to research all taxes applicable to your business sector and location before you start.

CIT calculation method In Vietnam:

ASSESSABLE INCOME x CIT Rate = CIT Payable in the period

In Which



With the government's commitments to improving and expanding the national economy, several tax incentives have been introduced to help businesses. Businesses are able to take advantage of preferential tax rates for a number of encouraged sectors:

- Healthcare
- High-tech companies
- Software development
- Education
- Infrastructure development
- Environmental protection
- Aquatic and agricultural products processing
- Scientific research
- Renewable energy

VALUE ADDED TAX

Value added tax (VAT) is a type of indirect sales tax on products and services. This means that businesses serve as VAT intermediaries to collect this tax from customers, and in turn, pay it to the government.

The VAT rate is determined by your business sector and the category of goods and/or services that your business offers.

VAT also applies to products and services imported from outside the country. Therefore, if your company trades and imports products and/or services in Vietnam, you must register for VAT declaration as soon as you have your business permits.

For the majority of product types, a 10% flat VAT rate applies. The VAT rate on goods and services under the state's priority and incentive policies is 5%. There is also a 0% VAT rate available for exported goods and services and their delivery.

For Vietnam, there is a distinction between items that are exempt from VAT, and items that enjoy 0% VAT, according to Circular 219/2013/TT-BTC. As mentioned, exports and the delivery of exports belong to the latter, and businesses in the field still have to register and declare their VAT.

VAT exemptions mean that the business is free from all VAT obligations. Exemptions are granted to 26 categories (see the Circular's appendices) of goods and services to encourage agricultural production; subsidize materials that cannot be manufactured domestically; and services that are essential to citizens' lives and not of commercial nature.

Here is a comprehensive list of the VAT rates you should be aware of:

0%	International transport, offshore construction, exported products and services, agricultural machinery, animal feed, fertilizer;
5%	Basic food and drinks, necessities, public transportation, agricultural products and services, medical devices;
10%	Other taxable products and services;
15%	Luxury goods.

YOU CAN CALCULATE VAT IN VIETNAM BY ADOPTING EITHER METHOD:

1. The direct method
VAT payable = *turnover x VAT rate*

2. The indirect (credit) method
VAT payable(deductable) = *output VAT – input VAT*

VAT REFUNDS IN VIETNAM APPLIES FOR THE BELOW CASES:

- VAT refund for exported goods and services.
- VAT refund for investment projects

VAT refunds are an essential element of a business's cash flow and growth. Your business can qualify for a VAT refund if you meet these requirements:

1. The business pays VAT via the credit method;
2. The business has a valid enterprise registration certificate, an investment license (practice license), or an establishment decision, issued by a relevant authority;
3. The business has a registered stamp compliant with the law;
4. The business prepares and keeps accounting books and documents as required by the Law on Accounting;
5. The business has a deposit bank account registered with its tax code.

When can the enterprises submit the dossier for a VAT refund application?

If the VAT input is not completely subtracted after 12 months or four consecutive quarters and the deductible VAT amount carried forward exceeds VND 300 million, the enterprise is entitled to a refund.

Personal income tax (PIT)

Personal income tax withheld from wages, salaries must be declared and paid monthly or quarterly. The monthly or quarterly tax declaration and payment is only determined once from the first month in which tax deduction arises and applies to the whole tax year, specifically as follows:

Monthly personal income tax declaration
When calculating the withheld tax amount within a month, if at least one type of PIT reaches VND 50 million or more, the individual must pay and declare their PIT monthly.

Quarterly personal income tax declaration
When calculating the withheld tax amount within a month, if all PIT are under VND 50 million, the individual can pay and declare their PIT quarterly.

At each time of income generation
Every time revenue is earned through business operations, including transferring real estate, capital, and securities of property rental income (the business must have authorization from income-earning individuals).

The rate of PIT depends on the kind of income under the contract that individuals sign with enterprises

WHAT IS THE TAX REGISTRATION PROCESS IN VIETNAM?

Every firm in Vietnam must obtain a unique tax registration number, also known as a tax code, in order to comply with their tax responsibilities. The code will also be used as your business license number or enterprise identification (EID) number. All of your company's financial operations will involve this registration number. To receive the business license number and company tax code, you must submit a company registration application form along with the required paperwork.

Let us understand the Business License Fees

The business license tax is an amount of money that enterprises are required to pay manually and annually. The deadline for declaring your business license and submitting the tax is January 30th of the year after obtaining your ERC (Enterprise Registration Certificate).

Here are the rates of business license tax, which are determined by your enterprise's capital:

No	Capital amount	License Tax	Level
1.	Enterprises with over VND 10 billion in charter capital or investment capital	3.000.000VND	Level 1
2.	Enterprises with VND 10 billion or less in charter capital or investment capital	2.000.000VND	Level 2

If your company's capital amount (charter capital or investment capital) changes in a way that affects your level of business license tax, you will have to re-submit the business license declaration within the following year. The level of business license tax for the current year will be calculated based on the capital amount of the previous year.

When Should you Pay Taxes in Vietnam?

Value-added tax (VAT)

You must file and submit your monthly VAT return by the 20th of the following month.

Quarterly VAT filing and submission are allowed for businesses whose turnover does not exceed VND 50 billion in the previous year. For this case, the declaration and payment needs to be made by the end of the first month in the following quarter.

Corporate income tax (CIT)

In Vietnam, you are required to submit your provisional CIT within 30 days after each quarter.

Additionally, you have to finalize and remit any payable corporate income tax balance within 90 days after each financial year for the annual final CIT returns.

Corporate income tax (CIT)

Vietnam's standard financial year is January 1 to December 31. Alternatively, companies in Vietnam, depending on their business activities, are allowed to adopt their own financial year, which can end on either March 31, June 30, or September 30.

In Vietnam, companies are to pay the annual business license fee within the first 30 days of the new calendar year.