Country Profile

Vietnam is situated in South-East Asia, and shares its borders with China, Laos, Thailand and Cambodia. After the unification of North and South Vietnam in 1976, the government started changing the broad socio-economic policies. Many of the current economic policies trace their origin to the reforms launched in 1986 by the name of Đổi Mới. This reform led to significant changes in the policies related to the working of industries, trade, labour and markets. In the last two decades, Vietnam has witnessed high rates of economic growth and per capita income growth. It has also emerged as one of the top destinations for foreign direct investment in Asia. Currently, Vietnam is a member of Association of Southeast Asian Nations (ASEAN), Asia-Pacific Economic Cooperation Forum (APEC), and the World Trade Organization (WTO). At present, the country is party to twelve major free trade agreements, and seven more are in the process of negotiation. Vietnam is also a signatory to eighty Double Tax Avoidance Agreements (DTAAs).

Tax Regulations

Vietnam’s tax mix is comprised largely of the following taxes:

**Corporate Income Tax:**
The standard corporate income tax rate in Vietnam is 20 per cent. However, companies operating in mineral and natural resources are taxed at different rates. Tax rates on firms in the oil and gas industry range from 32 per cent to 50 per cent depending on the location and project-specific conditions. The exact rate is decided by the Prime Minister for each project based on the project’s specification. For firms involved in mineral resources (eg, silver, gold, gemstones), the tax rates stand at 40 per cent or 50 per cent depending on the project’s location.

**Personal Income Tax:**
Vietnam has a progressive personal income tax system, where the personal income tax rate ranges between 5 per cent and 35 per cent according to income levels. Certain incomes are categorised as ‘non-employment income’, and are subject to pre-defined flat tax rates.7

**Value Added Tax (VAT):**
The goods and services produced, traded or consumed in Vietnam attract a Value Added Tax, though certain items are excluded from VAT taxability. The standard rate in Vietnam stands at 10 per cent; however, some commodities are also taxed at lower rates of 0 per cent or 5 per cent.

**Import and Export Duties:**
Vietnam, like most other countries, does not tax its exports, except in case of goods derived from natural resources. The import duties vary depending on the types of items and the country of origin. For example, luxury goods attract high import duties, while machinery and other inputs for production enjoy lower rates. The country specific rates are of three types — ordinary rates, preferential rates, and special preferential rates. Preferential and special preferential rates are the result of various trade agreements Vietnam has entered into with different countries.8

**Other Taxes**
Some other taxes are also levied, such as property tax, environment tax, natural resource tax, land tax, foreign contractor withholding tax, etc.

---

**Tax Incentives for Businesses**

**Types of Tax Incentives**
The tax incentives provided in Vietnam are mainly of three types as follows:

**Preferential tax rates:**
In case of preferential tax rates, companies have to pay corporate income tax at a rate lower than the standard 20 per cent rate. There are three preferential rates — 10 per cent, 15 per cent and 17 per cent. These lower rates can either hold good for the entire lifetime of the project or for a pre-defined period depending on the specific provisions (listed in the next section). Barring a few exceptions such as high-tech enterprises or projects, the period for preferential tax rate starts from the first year of revenue generation.

---

7 These ‘non-employment income’ are those which are derived from business activities, investment, inheritance, gift, capital gain, royalties, etc.
8 Supra note 6
Tax Incentives in Vietnam: A Fact Sheet

Tax Holidays:
In case of tax holidays, companies don’t have to pay corporate income tax for a pre-defined period, which is generally four years. In some cases, after the completion of a tax holiday, companies also get a partial tax holiday, wherein they only have to pay 50 per cent of the tax they owe. The period of a tax holiday generally starts with the first year of profit making or fourth year of revenue generation, whichever is earlier. In some cases, companies can enjoy the benefits of a tax holiday and preferential tax rates at the same time.9

Exemption from customs duty:
Companies are eligible for exemption from customs duty if they fulfil certain criteria (listed in the next section).

Eligibility for Tax Incentives

Vietnam provides tax incentives for businesses on four bases – sector, location, size of investment, and select exemption from import duty.

a) Sectors:
Certain sectors in Vietnam are encouraged, and include industries that the government wants to incentivise, facilitate investments for, or those which are beneficial for society:10

- High-tech industries
- Supporting products used in high-tech industries
- Software products
- Research and development
- Select agricultural and allied sectors
- Infrastructure development
- Renewable energy
- Education
- Health care
- Sports and culture

Firms operating in the above mentioned sectors are given following tax incentives:

- Firms making new investments in technology related sectors, garments, footwear, automobiles, goods that are not produced domestically, and investments where the products meet the European Union (EU) quality standard11 – these are taxed at 10 per cent for 15 years. This period also includes a tax holiday for the first 4 years and 50 per cent reduction in the CIT rate for 9 subsequent years.

- Companies operating in sectors of education and training, health

11  Ibid
care, sports, culture and environment have a tax rate of 10 per cent for their entire lifetime.

- Companies earning their income from prescribed agricultural and allied activities are eligible for 15 per cent tax rate for their entire lifetime.

Firms producing the equipment for the above prescribed agricultural sectors also receive a tax incentive in the form of 17 per cent tax rate for their entire lifetime.

b) Location: Depending on the level of infrastructure development, labour conditions, and the geography of the area, Vietnam is categorised into three groups – areas with difficult socio-economic conditions, areas with especially difficult socio-economic conditions, and remaining areas. Firms operating in difficult and especially difficult socio-economic conditions are generally offered tax incentives. Along with these areas, firms operating in Special Economic Zones (SEZs), High-Tech Zones (HTZs) and Information Technology Parks (ITPs) are also eligible for tax incentives.

**Tax incentives based on locations are as follows:**
Firms operating in especially difficult areas, SEZs or HTZs are taxed at 10 per cent for the first 15 years of revenue generation. This period also includes a tax holiday for the first 4 years followed by a 50 per cent reduction for the subsequent 9 years.

- Firms operating in difficult areas are taxed at 17 per cent for 10 years of revenue generation. This period also includes a tax holiday for the first 2 years, followed by a 50 per cent reduction for the subsequent 4 years.

- Firms operating in industrial parks are eligible for 2 years of tax holidays, followed by 50 per cent corporate tax reduction for the subsequent 4 years.

b) Size of Projects:
Tax incentives are also available for large manufacturing projects (excluding those in natural resources). There are two criteria to categorise large projects:

- Investment capital of more than VND 6 trillion (USD 259 million) disbursed within three years of being licensed, and
  a. The minimum revenue is VND 10 trillion (USD 431 million) per annum by the fourth year of operations at the latest, or

12 Sometimes these areas are also referred to as disadvantaged, extremely disadvantaged, and not disadvantaged.
13 Supra note 1
14 Supra note 1
b. The minimum employment stands at 3,000 by the fourth year of operations at the latest.

- Investment capital of more than VND 12 trillion (USD 517 million) disbursed within five years of being licensed and using prescribed technology.

The investments meeting either criterion are taxed at 10 per cent for 15 years. These firms are also eligible for tax holiday for first 4 years followed by 50 per cent reduction in CIT rate for next 9 years.

c) Import Duty: Businesses can also avail exemptions from import duty, if they meet one of the following criteria:

- Goods are imported to form fixed assets of select projects prescribed under the law;
- Goods are imported for implementing export processing contract with foreign parties;
- Those raw materials and supplies which are imported to directly serve the production of software products, and which cannot be produced domestically;
- Goods which are imported for use in scientific research and technological development, and which cannot be produced domestically.

Analysis

Though Vietnam provides a number of tax incentives to attract foreign investment, the government has not carried out a monitoring or evaluation exercise to confirm if the tax incentives offered are effective, the magnitude of revenue foregone as a result of incentives, or a cost-benefit analysis to ascertain if incentives are meeting their stated objectives.

The absence of data and information with regard the number of companies using incentives makes it harder for independent researchers to carry out any such analysis.

However, there are some studies by independent researchers and organisations that can provide useful insights into the Vietnamese tax incentives regime.

- In the last two decades, Vietnam has emerged as one of the major destinations for foreign direct investment in Asia.
tinations for foreign direct investment (FDI), as well as a hub for low-cost manufacturing. This period has also seen an increase in the number and magnitude of tax incentives being offered. However, there are hardly any studies to establish that the increase in FDI is due to the proportionate rise in tax incentives offered. The literature on tax incentives reveals that tax incentives have little role in attracting FDI.17

- Surveys of investors in Vietnam reveal that the most important factors affecting their investment decisions are political and economic stability, labour costs, taxation, the country’s legal framework and quality of infrastructure.18 Tax incentives hence hardly feature in the most important considerations for investment.

- The effectiveness of incentives can also be doubtful, as incentives aimed at attracting investment to geographically disadvantaged regions have seen little success. This may point to the fact that investment decisions are less affected by incentives and more by other factors such as infrastructure and labour costs.

- The most prevalent form of tax incentives in Vietnam is a tax holiday, which is regarded as the most problematic of all tax incentives for the following reasons:
  - Tax holiday encourages short-term investment and attracts ‘footloose companies’, which are aimed at only taking advantages of the tax holiday period.
  - Tax holiday provides opportunities for the corporation to engage in creative and abusive practice of corporate restructuring so as to keep availing the benefits of the tax holiday.
  - Tax holiday is beneficial only for the firms who are making profits; hence it is more likely that they would have invested even without the tax holiday.

- Other forms of tax incentives, such as tax credit or investment allowance, which are more likely to be effective and less likely to be abused, are not offered by Vietnam.

- A widely used measure of ineffectiveness of tax incentives in attracting investment is ‘redundancy rate’, which is the proportion of investments that would have taken place even in the absence of tax

The main concerns regarding tax incentives in Vietnam are ineffectiveness, redundancy, misuse, attracting footloose companies, not being based on sound economic analysis, and potential for corruption.

---

19 This finding has been confirmed by many different studies in different countries, see Stausholm, S. N. (2017). Rise of ineffective incentives: New empirical evidence on tax holidays in developing countries. Copenhagen Business School
21 Ibid
incentives. A survey of domestic companies shows that redundancy rate of tax incentives in Vietnam is very high in the range of 70% -80%.20

- The rate of subsidy, i.e. the amount of investment arising out of money spent by the government in the form of revenue foregone, is more than 60% in three out of four geographical regions studied.21

- The tax incentives offered by the Vietnamese government result in lower effective tax rates. In 2014, when the statutory tax rate for corporate income tax was 22 per cent, the effective tax rate for the business was only 20.5 per cent.22

- Many corporate tax incentives are aimed at larger investments; hence they exclude micro enterprises. From the perspective of equity, this can be problematic on two counts. First, smaller enterprises are generally more labour-intensive and are hence more likely to achieve the goal of employment generation. Second, more beneficial tax incentives for larger firms are likely to exacerbate the problem of wealth and income inequality.23

- As mentioned in the previous section, Vietnam provides a number of incentives, and the eligibility criteria are numerous, rendering the tax incentive system of Vietnam too complex. This complexity, in turn, makes it hard for the incentives to be properly administered, and hence more prone to be abused.24

Recommendations

- Tax incentives in Vietnam must be underpinned by clear, transparent, and credible legal, technical and political processes to deter rent-seeking behaviours that grant tax breaks purely for private gains.

- There should be complete transparency on tax expenditures due to tax incentives. Foregone revenue must be collected, compiled and publicly reported at all levels of governance and form part of public expenditure review by the country’s Parliament, and by finance and budget ministries. Tax expenditures must be analysed to determine if they are consistent with budget policies. They must also be subject to review by state audit authorities, as with direct public spending.

---

23 Ibid
24 Ibid
• Tax incentives must be justified by their clear link to Vietnam’s national development strategy and positive contribution to specific economic and social policy outcomes. The justification must be backed by technically sound, evidence-based and comprehensive assessment by competent authorities. Assessments must evaluate alternative policy options to determine whether tax incentives are the most efficient and effective means to achieve the same policy outcomes.

• Social costs and benefits of new and existing tax incentives must be evaluated comprehensively to cover externalities, intended and unintended consequences, and consistency with social and environmental policies, labour standards and environmental regulations.

• Laws should specify the scope and limitations of tax incentives. There must be rules setting clear criteria for determining which investments and firms are qualified to avail of tax incentives. Tax incentives are targeted and selective by nature. Ambiguous targeting criteria leave room for discretion, which raises the risk of giving tax breaks to unqualified but well-connected investors. Sunset clauses must also be in place to prevent continued granting of tax incentives that are no longer needed.

• Tax incentives must be subjected to ongoing review and monitoring by the government. Technical evaluations must be subjected to parliamentary oversight and publicly reported. Reviews must lead to decisions to terminate those that are determined to be harmful tax incentives or no longer serve their purpose. Mechanisms for people’s participation in monitoring social impacts must be put in place.

• Freedom of information laws must extend to firms using tax incentives. Financial information used as basis for computing and claiming tax breaks must be reported and publicly available for scrutiny. Tax incentives must be treated the same way as public expenditure by the government. Tax administrators and state audit authorities must have access to the financial information that is necessary to validate the basis for the tax breaks being claimed. Bank or financial secrecy laws that may prevent authorities’ access to this information must be amended.
Centre for Budget and Governance Accountability is an independent non-profit organisation enhancing transparency and accountability in governance through rigorous analysis of policies and budgets, and fostering people’s participation in public policy processes by demystifying them.

The Financial Transparency Coalition (FTC) is a global civil society coalition comprised of the pioneering organizations in the area of illicit financial flows (IFFs). Since its founding in 2009, the FTC has been the forum through which these leading experts on IFFs have collaborated and coordinated efforts around the world to successfully introduce the concept of IFFs to the world, educate governments, the public and private interests about how IFFs undermine global development efforts, and drive the adoption of international measures to break the IFF cycle.