Executive summary

On 8 August 2017, Vietnam’s Ministry of Finance announced proposals to amend and supplement the current laws on corporate income tax, personal income tax, value added tax, special sales tax and natural resources tax (the Proposal).

The main objectives of the Proposal are to:

1. Reconcile the State Budget
2. Streamline the tax system to align with international practices
3. Clarify unclear tax issues and reduce the tax compliance burden for businesses with operations in Vietnam

The Proposal is expected to be effective as of 1 January 2019 after its submission to the Government in September 2017 followed by enactment by the National Assembly.
Detailed discussion

Corporate Income Tax (CIT)

- A transfer of interest in a Vietnamese company by nonresidents is proposed to be subject to a 1% CIT on the sale proceeds, replacing the current 20% tax on net gain. While not specifically stated, it appears this may also apply to indirect share transfers.
- On-the-spot import and export of trading and distribution would be reduced to a 0.5% CIT from the current 1% CIT.
- Thin capitalization rules are introduced to limit deductibility of interest expense to specific debt to equity ratios of 5:1 for manufacturing, 12:1 for banking and 4:1 for all other sectors. Sectors that are subject to minimum legal capital requirements are not affected by the thin capitalization proposal.
- Tax incentives are proposed to be streamlined with the objective that they are only available for encouraged sectors such as enterprises and investments in high technology industries, assistive technologies, and manufacturing industries with high added value.
- CIT rates for micro, small, and medium-sized enterprises are proposed to be amended as follows:
  - 15% for enterprises generating revenue below VND3 billion (US$130,000) per year (micro-sized enterprise).
  - 17% for small and medium-sized enterprises that have 200 or less employees participating in Social Insurance Scheme and generate revenue from VND3 billion to VND50 billion (US$130,000 to US$2.2 million) annually.

A specific anti-abuse rule is introduced to limit the applicability of these two reduced rates to a parent-subsidiary structure in which the parent company holds the equity of 25% or more in its subsidiary.

Value Added Tax (VAT)

- The VAT rates are proposed to increase from 10% (standard tax rate) to 12% as of 1 January 2019.
- The 5% VAT rate for essential goods and services would increase to 6%.
- Certain items of goods and services that are currently taxed at a 5% VAT rate would be subject to the new 12% standard VAT rate.
- The threshold for bank payments that are subject to both taxable deduction and VAT input credit purposes would be reduced by 50% to VND10 million (US$440).
- A VAT refund is proposed to be available for enterprises providing goods and services at a 6% VAT rate when there is outstanding input VAT for 12 consecutive months or 4 consecutive quarters.

Special Sales Tax (SST)

- Soft drinks would be subject to a 10% SST during 2019.1
- SST rates for cigarettes would increase from 70% to 75% during 2019 and to the maximum price of VND1,000\(^2\) per 20-cigarette pack and VND1,500\(^3\) per cigar from 2020.
- Taxable price for SST calculation of domestically manufactured cars with nine seats or below would be the selling price of the manufacturer exclusive of the value of the spare parts and/or components produced domestically.

Endnotes

1. No specific date is yet provided.
2. Less than US$1.
For additional information with respect to this Alert, please contact the following:

**Ernst & Young Vietnam Limited, Ho Chi Minh City**
- Robert King +84 8 3824 5252 robert.m.king@vn.ey.com

**Ernst & Young LLP (Canada), Vietnam Tax Desk, Toronto**
- Nhung Tran +1 416 943 2460 nhung.tran@ca.ey.com

**Ernst & Young LLP, Asia Pacific Business Group, New York**
- Chris Finnerty +1 212 773 7479 chris.finnerty@ey.com
- Kaz Parsch +1 212 773 7201 kazuyo.parsch@ey.com
- Bee-Khun Yap +1 212 773 1816 bee-khun.yap@ey.com

**Ernst & Young LLP, Asia Pacific Business Group, Houston**
- Trang Martin +1 713 751 5775 trang.martin@ey.com
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited. All Rights Reserved.

EYG no. 05087-171Gbl
1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com