

The new basic salary and minimum salaries to be applied from 1 July 2024

Legal Update | July 2024

This Update highlights the following key points:

- ▶ Increase the deduction amount for various insurances and benefit expenditures as a result of the increase in basic salary.
- ▶ Applying the new minimum salary for employees working under labor contracts.
- ▶ Update of the list of regions subject to minimum salary.
- ▶ Increase in the unemployment insurance premiums, trade union fees and other payments payable by enterprises to employees.
- ▶ Other actions enterprises need to take to ensure compliance.

On 30 June 2024, the Government took initial steps in wage reform, according to Resolution No. 27-NQ/TW dated on 21 May 2018, by issuing Decree No. 73/2024/ND-CP replacing Decree No. 24/2023/ND-CP (Decree 73) and Decree No. 74/2024/ND-CP replacing Decree No. 38/2022/ND-CP (Decree 74), which respectively regulate the basic salary and minimum salaries.

Decree 73 and Decree 74 are both effective from 1 July 2024. In this Legal Update, we emphasize the significant changes in basic salary and minimum salaries stipulated in Decree 73 and Decree 74, as well as their major impact on enterprises wage policies and employee welfare in Vietnam.

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1. Impact of the new basic salary on the deductible amounts for payment of various employee insurance policies and benefits

- ▶ From 1 July 2024, the new basic salary is VND2,340,000 per month under Decree 73, an increase of 30% over the previously applied basic salary of VND1,800,000 per month. Although the basic salary is only applicable to state officials, public employees and the armed forces, it is also used to determine the maximum deduction amounts for various insurances and benefits for employees working in enterprises. Particularly, these amounts will consequently be increased as follows:
 - ▶ The new maximum contribution to Social Insurance (SI) and Health Insurance (HI) is VND46,800,000 per month (twenty times the basic salary).
 - ▶ The following types of allowances and benefits will be increased:
 - (i) The rate for convalescence and health rehabilitation after sickness
 - (ii) Lump-sum allowance upon childbirth or child adoption
 - (iii) The rate for convalescence and health rehabilitation after maternity
 - (iv) Lump-sum allowance rate for employees with reduced working capacity from 5% to 30%
 - (v) Monthly allowance for employees with reduced working capacity from 31% or more
 - (vi) Service allowance for employees with reduced working capacity from 81% or more who suffer from spinal paralysis or blindness in both eyes or amputation, paralysis of both limbs or mental illness
 - (vii) Lump-sum allowance for death due to occupational accidents or occupational diseases
 - (viii) The level of entitlement to convalescence and health rehabilitation after treatment of injuries and diseases
 - (ix) The lowest monthly pension amount for employees covered by SI
 - (x) Funeral allowance
 - (xi) Monthly survivorship allowance
- ▶ However, the application of the new basic salary to calculate the maximum deduction amounts for various insurances and benefits for employees working in enterprises mentioned above is only temporary. According to the Law on Social Insurance (amended) passed by the National Assembly on 29 June 2024, to be effective on 1 July 2025, the "reference amount" will replace the "basic salary" as the ground to calculate the amounts of contribution and enjoyment for a number of SI regimes. The reference amount shall be adjusted on the basis of the increase of the consumer price index and economic growth in accordance with the ability of the state budget and the SI fund.

2. Applying the new minimum salaries for employees working under labor contracts

- ▶ From 1 July 2024, the minimum salaries based on Decree 74 increased 6% compared to the previously applied minimum salaries. Accordingly, the specific monthly and hourly minimum salaries for employees under labor contract are stipulated as follows:

| Region | Minimum salary per month (Unit: VND/month) | Minimum salary per hour (Unit: VND/hour) |
|------------|---|---|
| Region I | 4,960,000 | 23,800 |
| Region II | 4,410,000 | 21,200 |
| Region III | 3,860,000 | 18,600 |
| Region IV | 3,450,000 | 16,600 |

- ▶ Regarding the method of weekly or daily salary payment or product or fixed salary, the salary level of these methods of payment, if converted into monthly or hourly basis, must not be lower than the monthly minimum salary or hourly minimum salary. Decree 74 also clearly states how to determine the salary converted into monthly or hourly salary on the basis of normal working hours.

3. Update of the list of regions subject to minimum salary

- ▶ The principle used regional areas to determine the minimum salaries still adhere to the provisions of the Decree 38/2022/ND-CP. In addition, some provinces or cities have been adjusted in their regional classification due to the rearrangement of administrative boundaries to more suitably reflect the socio-economic development situation of Vietnam, specifically:
 - ▶ Adjustment from Region II to Region I for: Quang Yen town, Dong Trieu town, Uong Bi city, and Mong Cai city in Quang Ninh province.
 - ▶ Adjustment from Region III to Region II for: Thai Binh city in Thai Binh province; Thanh Hoa city, Sam Son city, Nghi Son town, and Bim Son town in Thanh Hoa province; Ninh Hoa town in Khanh Hoa province; Soc Trang city in Soc Trang province.
 - ▶ Adjustment from Region IV to Region III for: Thai Thuy district and Tien Hai district in Thai Binh province; Trieu Son, Tho Xuan, Yen Dinh, Vinh Loc, Thieu Hoa, Ha Trung, Hau Loc, Nga Son, Hoang Hoa, and Nong Cong districts in Thanh Hoa province; Ninh Phuoc district in Ninh Thuan province.

4. Increase in the unemployment insurance premiums, trade union fees and other payments made by enterprises to employees

- ▶ In case the monthly salary paid for the Unemployment Insurance premiums (UI) is higher than 20 months of the minimum salary, the maximum salary used for UI contribution shall be equal to 20 months of the minimum salary at the time of payment. Therefore, from 1 July 2024, the maximum monthly salary used for UI contribution for employees working in enterprises will be increased as follows:

- ▶ Region I: VND99,200,000
- ▶ Region II: VND88,200,000
- ▶ Region III: VND77,200,000
- ▶ Region IV: VND69,000,000
- ▶ Additionally, the increase in the minimum salary may increase the salary serving as a basis for contributing UI, HI and SI for employees working under labor contracts. Furthermore, the salary fund serving as a basis for contributing SI may also increase and therefore, enterprises must pay more trade union fees.
- ▶ On the other hand, certain payments that enterprises must make to employees, such as suspension salary and statutory minimum salary in case of reassignment of an employee against the labor contract, are also determined based on the minimum salaries and therefore may be increased accordingly when implemented.

5. Other actions that enterprises need to take to ensure compliance

In general, the promulgation of Decree 73 and 74 has significant implications for Vietnam's economic development, evidencing an effort to increase and ensure the standard of living as well as living expenses of employees.

In addition to ensuring employees' rights and interests, the percentage difference between the current and previous minimum salaries is approximately 6%. This percentage is aimed to avoid putting any pressure on business costs and labor estimated budget for enterprises, especially for small and medium sized enterprises in Vietnam.

Considering the fact that the new basic salary and minimum salaries have been effective since July 2024, enterprises should promptly take the following actions:

- (i) Recheck the corresponding region where the company's headquarters, units, and branches are located to determine the appropriate minimum salary.
- (ii) In the relationship with employees, recheck and adjust the labor contracts, increase wages for those receiving minimum salaries as well as recheck certain payments that enterprises must make to employees, such as suspension salary and minimum wage for reassignment of an employee against the labor contract.
- (iii) In the relationship with state agencies, recheck payments that enterprises must deduct and contribute such as SI, UI, HI, trade union fees considering the increase in salary of employees (if any) and the SI payment that took into account the maximum contribution.
- (iv) Based on which, prepare an application dossier to adjust the salary used as basis for SI, HI, UI contribution as prescribed by law for employees whose salaries have been adjusted due to the increase in the minimum salaries.
- (v) Organize a review of internal labor policies of employers, such as the collective labor agreement, internal labor regulations, pay scales, payrolls, bonus scheme, etc., to adjust and supplement salary and bonus levels accordingly (in cases where agreements or internal policies are based on the previous minimum salaries).

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