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**Tax Alert**

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# Key changes in the corporate income tax policy

This Alert highlights some notable changes in the corporate income tax (CIT) policy applied from 1 October 2025 and for the tax year 2025 and beyond.

The National Assembly has enacted Law No. 67/2025/QH15 on corporate income tax (hereinafter referred to as the “Law on CIT 2025” or the “Law”) during its working session on 14 June 2025, as part of the 9th Session of the National Assembly XV. This Law will officially take effect on 1 October 2025. Despite the specified effective date, the Law states that it will apply to the tax year 2025 and onwards.

Key changes in the CIT policy as outlined in the Law on CIT 2025 include:

- The introduction of a CIT policy applicable to foreign enterprises.
- Some amendments have been made regarding the determination of taxable profits, including provisions for CIT-exempt income, the offsetting of profits and losses from business activities, the determination of deductible expenses, and introduction of additional CIT rates.
- New guidelines have been introduced for determining CIT incentives applicable to new investment projects, expansion investment projects, and enterprises transitioning from business households.
- Certain policies have been introduced to deal with the frameworks established by international organizations.

## 1. CIT policy applicable to foreign enterprises

- Under current regulations, foreign enterprises generating taxable income in Vietnam are subject to CIT in Vietnam as follows:
  - (i) Foreign enterprises with a permanent establishment (PE) in Vietnam are liable for CIT on taxable income earned within Vietnam, as well as taxable income generated outside Vietnam that is attributable to the activities of the PE.
  - (ii) Foreign enterprises with a PE in Vietnam will pay CIT on taxable income in Vietnam, even if this income is not related to the activities of the PE.
  - (iii) Foreign enterprises without a PE will pay tax on taxable income generated in Vietnam.

Effective from 1 October 2025, foreign enterprises engaged in e-commerce and digital platform-based businesses will officially fall under the provisions of case (iii) above.

- In addition, e-commerce platforms and digital platforms have been officially recognized as part of the definition of PE under the Law on CIT 2025.
- The Law on CIT 2025 clarifies that taxable income for foreign enterprises in cases (ii) and (iii) is income sourced from Vietnam, regardless of where the business activities are conducted. Foreign enterprises in these two cases will be required to pay CIT in Vietnam based on a percentage of their total revenue, in accordance with regulations and detailed guidelines issued by the Government. This implies that taxes on a transfer of interests (shares/capital) in Vietnamese enterprises (including both direct and indirect transfers) will likely be calculated based on a percentage of taxable revenue. It is anticipated that the Government will issue more detailed guiding legislation on this matter in the near future.

According to a draft Decree recently published by the Ministry of Finance (MoF) for public comment, this calculation method is expected to apply to “income from capital transfer activities conducted by owners who do not directly manage the operations of the enterprises in Vietnam”, and the tax rate for this activity is anticipated to be 2%.

## 2. CIT-exemption income

The Law on CIT 2025 introduces several more categories of tax-exempt income, such as:

- Income derived from the implementation of innovation and digital transformation activities. This income is eligible for a tax exemption for a period of up to three years.
- Funds received for the purposes of scientific research, technology development, innovation, and digital transformation.
- Grants received from the state budget and from Investment Support Funds established by the Government.
- Income from the initial transfer of carbon credits, carbon credits, interest on green bonds, and income from the first transfer of green bonds.

## 3. Offsetting profits and losses in business activities

Taxpayers are permitted to self-determine the offsetting of profits and losses arising from their production and business activities. This includes the ability to offset losses from the transfer of real estate, investment projects, and the right to participate in investment projects against taxable profits from other business activities, unless the latter activities are entitled to tax incentives.

For the transfer of investment projects related to mineral exploration, exploitation and processing, the tax declarations and payments for the transfer must be accounted for

separately, and it is not permitted to offset profits or losses against the results of other production and business activities.

#### 4. Determination of CIT deductible expenses

The Law on CIT 2025 provides clearer guidelines for determining deductible and non-deductible expenses, introducing several important changes regarding the determination of CIT-deductible expenses as follows:

- Broadening the list of deductible expenses to include:
  - Additional expenditure related to research and development (R&D) activities, including those for scientific research, technology development, innovation, and digital transformation.
  - Expenses for business operations, even when they do not correspond to taxable revenue generated within the same period. This provision relaxes the revenue and expenses matching concept.
  - Contributions toward the construction of public infrastructure that also serve the enterprise's business activities.
  - Expenses associated with greenhouse gas emissions reduction aimed at achieving carbon neutrality, net-zero commitments, and controlling environmental pollution, provided they are also related to the enterprise's business operations.
  - Contributions to funds established under decisions made by the Prime Minister and as prescribed by the Government.

The Law also permits taxpayers to claim CIT deductions for creditable input value-added tax amounts that are directly related to their production and business but do not qualify for a tax refund.

In addition, expenses eligible for CIT deductions must be supported by evidence of non-cash payment in accordance with legal regulations. According to the draft Decree recently published by the MoF for public comment, the threshold for goods and services that require non-cash payment documentation to qualify for a CIT deduction is proposed to be VND5 million. This threshold aligns with the non-cash payment condition stipulated by Decree No. 181/2025/ND-CP dated 1 July 2025, detailing the implementation of the Law on Value Added Tax No. 48/2024/QH15 dated 26 November 2024.

- Categories of non-deductible expenses are extended to include:
  - Expenses that do not meet the conditions and requirements for payments as prescribed by relevant specialized legislation.
  - Interest on loans paid to non-credit institutions that exceed the cap stipulated by the Civil Code. According to current regulations, the ceiling of deductible interest expenses is 150% of the basic interest rate announced by the State Bank of Vietnam at the time of borrowing.
  - Expenses related to BT, BOT, and BTO contracts that are either non-compliant or exceed prescribed limitations.

The Law also introduces a new category of “other expenses” as non-deductible. Enterprises are recommended to closely monitor regulatory developments issued by the Government to determine which expenses fall under this category.

Additionally, the Law specifies certain non-deductible expenses in oil and gas exploration, prospecting, and exploitation activities, including interest expenses incurred for the execution

of petroleum contracts and recoverable expenses that exceed the recovery rate stipulated in the petroleum contracts or the regulatory limitations.

## 5. CIT rates

In addition to the standard CIT rate of 20%, the Law introduces two additional tax rates. These are a 15% rate applicable to micro-enterprises (defined as those with total annual revenue not exceeding VND3 billion), and a 17% rate applicable to small enterprises (which are defined as those with a total annual revenue ranging from VND3 billion to VND50 billion).

## 6. CIT incentives applicable to new investment projects

Tax incentives are determined based on preferential industries and geographical locations, in accordance with the provisions of the Law on CIT 2025, unless otherwise specified in the Capital Law and resolutions of the National Assembly regarding special and specific mechanisms and policies.

Key changes to tax incentives include:

- The industries eligible for CIT incentives are expanded to include:
  - Activities related to strategic technology and digital technology, such as the application of strategic technologies; provision of cybersecurity and key digital technology products and services; production of electronic equipment and other digital technology products in compliance with regulations on digital technology industry; R&D and design, production, packaging, and testing of semiconductor chip products; and development of artificial intelligence (AI) data centers.
  - Production of national defense and security, as well as industrial mobilization products, as defined by relevant legislation.
  - Production of key chemical and key mechanical industrial products as prescribed by law.
  - Cultivation, afforestation, livestock farming, aquaculture, and the processing of agricultural and aquatic products.
  - Automobile manufacturing and assembly.
  - Investment in and operation of technical infrastructure facilities supporting small and medium-sized enterprises (SMEs); SME incubators; and co-working spaces supporting innovative start-ups.

Investment projects with a minimum investment capital of VND6 trillion are no longer classified under incentivized industries according to the Law.

- From 1 October 2025, the following areas will be considered incentivized geographical locations:
  - Areas with particularly difficult socio-economic conditions
  - Areas with difficult socio-economic conditions.
  - Economic zones, high-tech zones, high-tech agricultural zones, and concentrated digital technology zones.

Industrial zones are not classified as incentivized locations under the Law on CIT 2025. This means that new investment projects or expansion investment projects within industrial zones will no longer be eligible for tax holidays and tax reduction periods as currently prescribed, unless the industrial zone is located in preferential geographical locations.

## **7. CIT incentives applicable to expansion investment projects**

Additional income generated from investment expansion aimed at increasing scale, enhancing capacity, innovating technologies, reducing pollution, or improving environmental conditions of an ongoing investment project operating in a preferential industry or location will continue to receive the same tax incentives as the existing project for the remainder of the incentive period. Taxpayers are not required to separately account for the additional taxable profits generated from the expansion investment as distinct from those of the existing project.

If the ongoing project has reached the end of its tax incentive period, the additional taxable profits from the expansion investment project may qualify for tax exemption or reduction periods, provided they meet the criteria related to historical costs or the ratio of additional investment in fixed assets, or the required increase in the originally designed capacity as prescribed. However, it is important to note that this profit will not be eligible for any preferential tax rate, and the periods for tax exemption and reduction of tax will commence from the year the investment project completes the injection of the registered capital.

## **8. CIT incentives for enterprises converted from business households**

Micro and small enterprises that are established through the conversion of business households will be eligible for a two-year tax holiday, starting from the first year in which the enterprises generate taxable profits.

## **9. Tax policies adopted following regulations stipulated by international organizations**

Certain policies have been introduced dealing with regulations stipulated by international organizations:

- The top-up-tax determined in accordance with the Income Inclusion Rule (IIR) may be credited against the CIT payable in Vietnam.
- The Government reserves the right to flexibly apply more favorable regulations within the framework established by the Organization for Economic Co-operation and Development (OECD) or the United Nations (UN) to uphold the right to tax income sourced from countries.





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