

DOING
BUSINESS
IN VIETNAM

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An aerial photograph of terraced rice fields in a mountainous region. The terraces are filled with vibrant green rice plants, creating a rhythmic, wavy pattern across the landscape. In the upper right, a small, simple pavilion with a white roof stands on a higher terrace. Near the bottom right, a few small figures of people can be seen walking through the fields. A dark rectangular box is overlaid on the center of the image, containing the title text.

01

COUNTRY OVERVIEW

Population

Vietnam is a country located at the center of Southeast Asia with the current population of approximate 98 million people as of March 2021.

Languages

Vietnamese is the official language used all over Vietnam. However, more and more people can speak English as the second language in Vietnam, especially in the big cities like Ho Chi Minh city, Hanoi city, Da Nang city.

Currency

Viet Nam Dong (VND) or Dong in the shorter way is the official currency in Vietnam.

GPD: \$343 billion
Income per capita: \$3,521
Inflation: 2.31%

Economic summary

Government

Vietnam is a socialist republic with three main agencies including (i) the National Assembly, (ii) the Government and (iii) the People's court system.

Legislative power is vested in the National Assembly of Vietnam. The Judiciary is independent of the executive.

The Government as the main executive state power is in charge of tasks assigned by the State in the fields of politics, socio-economy, national defense, security and external relations; maintains effective operation of the State apparatus from the central to grassroots levels; ensures the respect for, and implementation of the Constitution and laws; promotes the people's sense of mastery in national defense and construction; ensures stability and improves the people's material and spiritual life.

Components of the Government are Prime Minister as the head of the Government, Deputy Prime Ministers, and Ministers and Heads of ministerial-level agencies.

Vietnam is divided on 58 provinces and five 5 centrally-controlled cities existing at the same level as provinces.



Main sectors of the economy

Vietnam is one of the fastest growing countries all over the world in current years. The Government's effective policies, strategical location at the center of Southeast Asia area, the stable political environment and other relevant factors help Vietnam maintain the miraculous and stable development.

There are three main fields of the economy including agriculture, industry and service. In 2020, agriculture contributed 14% of GDP and 36% of the total workforce. The main agricultural crops are rice, rubber, coffee, sweet potatoes, corn, pepper, peanuts. The agricultural trade surplus edged up on the year in 2019.

Industries represented 34.5% of GDP and employed 28% of the total workforce. Energy, manufacturing, industrial production, processing industry, etc. have been growing rapidly. Vietnam also invests in high value-added industries such as software, cars.

Services contributed 41.6% of GDP and 35% of the total workforce in 2020. Two main services are tourism and telecommunications.

Member of ASEAN

free trade agreements and their impacts on businesses/investors


Vietnam is one of members of The Association of Southeast Asian Nations ("ASEAN"). ASEAN is developing to become the significant impact area on the trade world and attract a huge of investment capital from many developed countries in current years. Vietnam takes certain advantages due to the strategic location of the Southeast Asia.

ASEAN in general and Vietnam in particular, have been actively engaging in a variety of Free Trade Agreements ("FTAs") such as ASEAN - Japan; ASEAN - Korea; ASEAN -China; ASEAN – Hong Kong; ASEAN – Australia – Newzealand; EU-Vietnam Free Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership to create favourable proportions for Vietnam to receive the investment from countries in the world, especially on manufacturing, industrial processing, wholesales, software, high-tech products.



The background of the slide is a high-angle aerial photograph of a city. In the foreground, the corner of a modern glass skyscraper is visible, with its blue-tinted windows reflecting the sky. Below the glass, a wooden deck with several large, white, dome-shaped ventilation covers is seen. The city below is dense with buildings, and a river winds through the landscape. The sky is a clear, bright blue with a few wispy clouds.

02 SETTING UP A BUSINESS



Under Vietnamese laws, Vietnam welcomes the foreign investors both the entities, individuals and other organization to invest in. Through entering into World Trade Organization, ASEAN, FTAs, Vietnam creates the open-market in various investment sectors in accordance with the law.

A foreign investor may carry out business activities in Vietnam under forms of investment as follows:

1. Investment for establishment of an economic organization;
2. Investment in the form of capital contribution, purchase of shares, or purchase of a capital contribution portion;
3. Implementation of an investment project;
4. Investment on the basis of a Business cooperation contract;
5. New investment forms and forms of economic organizations as stipulated by the Government.

Financial accounts

The fiscal year is equal to the calendar year.
However, legal entities may choose for a different fiscal year if they wish.

Accounting and auditing

It is the foreign-invested enterprise must submit the statistical report, annual financial statement having been independently audited to the tax authority not later than 90 days from the end of the annual accounting period.

Legal types of business entities

In Vietnam, Limited-liability company with one or more members and Joint-stock company are popularly used. Both Limited-liability company and Joint-stock company forms protect their owners from liabilities/responsibilities incurred by such types of entities. It means that in case the owner(s) lose(s) the capital, they contributed to the Limited-liability company or Joint-stock company, but are not liable with other assets for debts exceeding their capital.

Enterprise: (1) Limited-liability company with one or more members; (2) Joint-stock company; (3) Partnership; (4) Business cooperation contract; and (5) Public-private contract.

Branch.

Representative office.

Process to set up a business

Certificate Project Location	IRC	ERC
Inside industrial zones, export processing zones, high-tech zones & economic zones	Management Board of Economic Zones	Department of Planning and Investment
Outside industrial zones, export processing zones, high-tech zones & economic zones	Department of Planning and Investment	

Incentives

for foreign investors



The Government encourages both foreign investors and local investors to invest in sectors prioritized for investment development or difficult areas through incentives.

Incentives for sectors: Hi-tech, environment protection, investment for infrastructure development, supporting industries, etc., with only 10% of CIT rate for 15 years.


It is 10% of the CIT rate during the whole project if the socialized projects are located in regions with difficult/especially difficult socio-economic conditions.

Depending on the Government's policies from time to time, such incentives may change during the term of the project.



03

TAXATION



In recent years, the tax system as well as the policies on tax administration in Vietnam have been constantly amended and supplemented to properly meet the practical requirements of Vietnam and international customs, promoting the development of production and business as well as facilitating favorable conditions for both domestic and foreign investors.



Value added tax is derived from sales tax and was applicable in Vietnam in 1999. All businesses and importers are subject to VAT regardless of the size or turnover of the goods, taxable services. Although the VAT payer is actually the buyer of goods or services, the sellers are responsible for imposing VAT on the price of goods or services they provide. For imported goods, the importer must pay VAT to the customs authority along with the import tax.

VAT is calculated according to 03 tax grades as follows:

The tax rate of 0% applies to exported goods and services (including goods, services being used outside of Vietnam's territory, non-tariff areas, providing foreign customers in accordance with Government's regulations), international transportation, and non-taxable goods and services used for export.

The tax rate of 5% applies to goods and services which are essential to the economy, such as clean water, fertilizer productions; cultivated products, feeds for cattle, poultry, and other domestic animals, medical equipment, stationery, cultural activities, exhibitions, scientific and technological services and some other goods and services.

The tax rate of 10% applies to goods and services not listed in goods and services to be entitled to the tax rate of 0% and 5%.

PIT

There are 02 ways to determine who will be imposed the PIT under the Law on Personal Income Tax which are as follows:

Residents who earn taxable incomes inside and outside of the Vietnamese territory;

Non-residents who earn taxable incomes inside the Vietnamese territory.

Basically, the basis for distinguishing between residents and non-residents is the time that person lives in Vietnam per year. The residents are entitled to more benefits as paying PIT than non-residents, such as tax reduction based on family circumstances. Specifically, from July 1st, 2020 onwards, the taxpayer exemption is 11 million VND/month (132 million VND/year) in conjunction with 4.4 million VND/dependent exemption/month (if any), while the non-residents cannot be entitled to these above-mentioned amounts of tax exemption.

Based on each type of income and the amount of income, there is an appropriate tax rate to calculate the amount of tax to be paid under the laws on personal income tax.



An enterprise established under the laws of Vietnam or an enterprise established under a foreign law with or without a permanent establishment in Vietnam is obligated to pay CIT under the Law on Corporate Income Tax.

Basically, income earned by enterprises established under the laws of Vietnam or the Vietnam permanent establishment of foreign enterprises shall be imposed the CIT, while a foreign enterprise without any permanent establishment in Vietnam only pay for CIT per its income earned inside Vietnam.

Currently, the standard CIT rate is 20%. In terms of activities of prospecting, exploring and exploiting oil and gas and other precious and rare neutral resource, the CIT rate is between 32% and 50%, depending on each project or business establishment.

Tax rate incentives - tax rate incentive and tax exemption and the period of applying tax rate incentive and exemption are considered based on two criteria: preferable business lines and geographical areas (including: extreme socio- economic difficulties, economic zones, or hi-tech parks). The enterprises are entitled to the tax rate of 10% for fifteen years or 20% for 10 years from the date of its incorporation. When the duration of tax rate incentive ends, the CIT rate will be calculated according to the standard rate. Enterprises need to meet all the conditions in accordance with the laws to be entitled to the tax rate incentives and the incentive level will depend on its business lines and the geographical area of operation.



The FCT was introduced to impose a tax on the earnings of foreign companies or individuals offshore providing services for Vietnamese tax residents (hereinafter referred to as “Foreign Contractor”). The FCT is a combination of the VAT and CIT or PIT.

There are three methods by which Foreign Contractors can choose to be taxed under the regulations of Vietnam on FCT.

1. First, the deduction method which requires the Foreign Contractor to register with the Ministry of Finance, conduct Vietnamese accounting, and pay taxes as if they were a Vietnamese tax resident.
2. Second, the direct method allows the Vietnamese purchaser of the goods or services of the Foreign Contractor to withhold the relevant taxes from its payment to the Foreign Contractor and then submit that withheld amount to the tax authorities on behalf of the Foreign Contractor.
3. Finally, the hybrid method allows the Foreign Contractor to act as a Vietnamese tax resident for the purposes of VAT but to have their CIT or PIT withheld by the Vietnamese purchaser. The applicable tax rates are published separately by the Ministry of Finance and vary depending on the nature of the goods or services sold into Vietnam.

Import Export Duties

Import duty rates include preferential rates, special preferential rates, and ordinary rates, specifically as follows:

Tax rate incentives apply to imported goods originated from any country or group of countries or territories that accord Vietnam most-favored-nation treatment; By being a member of WTO, most-favored-nation tax rates are in line with the WHO commitments and are applied to goods imported from WTO member countries.

Special tax rate incentives apply to imported goods originated from any country or group of countries or territories entering into agreements on special preferential import duties with Vietnam. Currently, Vietnam concluded several special preferential agreements with the following countries: ASEAN member countries, Australia, New Zealand, India, Japan, Korea, Chile, China and some other countries.

Ordinary tax rates apply to imported goods not listed in goods to be entitled to tax rate incentives and special tax rates. The ordinary rate is 150% of the tax rate incentives applied to the corresponding goods.



04

HR/ Labour Law

Labour Contract

In accordance with the Labor Code of Vietnam, a labor contract must be in writing. However, regarding a labor contract with the terms of the contract of less than 01 month, the parties are permitted to conclude an oral labor contract, except for cases that (i) one party of the labor contract is a group of people, employees whose age is under fifteen (15) years old, or (ii) domestic workers who regularly carries out domestic work for one or more than one households.

With regard to the content of the labor contract, it must contain the following particulars: information of the employer and employee; job description, workplace; the term of the labor contract; wage rate in accordance with the job; working hours; rest hours; and some other particulars related to working conditions, safety, social insurance, unemployment insurance, health insurance, professional training for the employees and other provisions under the parties' agreement in accordance with the Law.

Employers and employees can enter into an indefinite-term labor contract or the definite-term contract whose term must not exceed thirty-six (36) months. And at the end of the first definite-term labor contract, parties are permitted to conclude only one additional definite-term contract. Regarding the termination of the labor contract, the labor contract only is terminated in accordance with the laws. The employee has the right to unilaterally terminate the labor contract without any plausible reason, while the employer shall strictly comply with the laws as terminating the employee. Generally, VietNam is an employee-oriented country.

From 2021, the retirement ages of employees in normal working conditions shall be 60 (sixty) years plus 03 months for males and 55 (fifty-five) years plus 04 months for females, and shall increase by 03 months for males and 04 months for females after every year.

An employee has the right to be entitled to the retirement pension once satisfying the years of paying insurance contributions under the laws on social insurance. Currently, the requirement for the number of years of paying social insurance to be entitled to the retirement pension is 20 years.

Pension

Probation

Probation shall not be applied to a labor contract with the term less than one (01) month.

The probation duration is based on the nature and complexity of the work but shall not exceed 180 days for the position of enterprise managers prescribed in the Law on Enterprises, the Law on management and use of state investment in enterprises; 60 days for positions that require a junior college degree or above; 30 days for positions that require a secondary vocational certificate, professional secondary school, positions of or for technicians, and skilled employees; or 06 working days for other jobs.

In terms of salary, the probation salary shall not be lower than 85% of the offered official salary.

During the probationary period, either party has the right to terminate the concluded probation contract without prior notice and compensation obligation.



Minimum Wage

There are 04 region-based minimum wages (Region I, Region II, Region III, and Region IV) in which the minimum wage of each region is different from others. Specifically, the minimum wage paid for employees by the enterprises located in Region I is the highest. The typical example of Region I is Urban/suburban districts of Ho Chi Minh City.

Foreigner Employment

Employers are permitted to employ foreign employees to hold positions of managers, executive directors, specialists and technical workers only when Vietnamese workers cannot meet the professional requirements of those positions. Recruitment of foreign employees in Vietnam shall be explained to and subject to written approval by competent authorities. In return, the foreign employee, except for some exceptions, shall be required to get a work permit as working in Vietnam. The duration of the work permit is 02 years and can be renewed once for a period up to 2 years.



Trade Union

Trade union is the representative organization of employee. The establishment and operation of trade union is based on enterprises' voluntary and demand.

Trade Union fee is paid by total trade union members with the monthly fee rate of 1% of the salary and salary allowance but no more than the amount of 10% of statutory base salary.

Trade Union fund for operation is paid by enterprises with the remittance level of 2% of the salary fund used for the basis for social insurance payment for employees.

Social Insurance

In Vietnam, there are three types of insurance that employers and employees are obligated to pay monthly. Specifically, they are social insurance, health insurance and unemployment insurance. However, the ratio of contribution between employers and employees is different, specifically as follows: the contribution of social insurance is determined by the contribution ratio multiplied with the monthly salary, in which the monthly salary is comprised of salary, salary allowance and other compensations specified in an employment contract.

Type	Employer	Employee
Compulsory social insurance	17,5%	8%
Health insurance	3%	1,5%
Unemployment insurance	1%	1%
Total	21,5%	10,5%



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