



Vietnam¹

Overview of Tax Revenue and
Tax on Capital Gains of Indirect Transfer

COUNTRY PRESENTATION

By: Nguyen Van Phung, Senior Expert
Director of Large Taxpayer Dept.
General Department of Taxation
Ministry of Finance of Vietnam

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INTRODUCTION TO VIETNAM

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Geography: lies in the eastern part of the Indochina peninsula, bordered by China to the North, Laos and Cambodia to the West, and the East Sea and Pacific Ocean to the Southeast

Coast line is 3,260 km long and its inland border measures 3,730 km.

The country's total length, from the northernmost point to the southernmost point, is 1,650 km



INTRODUCTION TO VIETNAM

(Cont'd)

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- Flag:



- National Anthems
- Mainland Territory (sq. km): 331,211.6
- Population (in millions): about 90 (2013)
- National Capital: HANOI
- Administrative Units: divided into 63 provinces and cities



INTRODUCTION TO VIETNAM (Cont'd)

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- **Climate:** Vietnam's climate can be divided into three different zones - North Vietnam, Central Vietnam and South Vietnam
The annual average temperature ranges from 22°C to 27°C. In Hanoi, the average temperature is 23°C, in Ho Chi Minh City it is 26°C, and in Hue it is 25°C
- **Population:** Viet Nam's population has reached 90 million in October 2013, ranking 14th among the countries with the largest population in the world, 8th in Asia and 3rd in Southeast Asia.



INTRODUCTION TO VIETNAM (Cont'd)

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- **Ethnic Groups:** Vietnam is a multi-ethnic country with over 54 distinct groups, each with its own language, lifestyle, and cultural heritage. Many of the local ethnic groups are known collectively in the West as Montagnard or Degar. The largest ethnic group is Kinh (Viet) over 80%, 20% is remaining ethnic groups.
- **Religion:** With its many cultures, Vietnam has a variety of religions such as Taoism, Mahayana Buddhism and Confucianism, etc.



OVERVIEW OF VIETNAM TAX REVENUES

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In Vietnam, all tax collections are centralized. The General Department of Taxation (GDT) collects all domestic taxes, and the General Department of Customs (GDC) collects all taxes falling on import and export tax.

CURRENT TAX SYSTEM IN VIETNAM

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1. Export and import duties
2. Value Added Tax
3. Special Consumption Tax
4. Corporate Income Tax
5. Personal Income Tax
6. Agricultural Land use Tax
7. Non-Agricultural Land use Tax
8. Natural Resources Tax
9. Environmental Tax
10. Fees and charges

SUMMARY OF MAIN TAXES IN VIETNAM

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1. Corporate Income Tax:

2004 – 2008 : 28% **2009 – 2013 : 25%**

2014 – 2015: 22% **From 2016 : 20%**

Tax Incentives:

- ★ Preferential Rate of 10% for 15 year; 4 years of exemption and 50% tax reduction for 9 subsequent years : New investment projects (NIPs) in regions with especially difficult socio-economic conditions economic zones, high-tech zones, high-tech enterprises, ...
- ★ Preferential Rate: 17% for 10 year; 2 years of exemption and 50% tax reduction for 4 subsequent: NIPs and in regions with difficult socio-economic conditions and some listed sectors.

SUMMARY OF MAIN TAXES IN VIETNAM

(cont'd)

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2. *Personal Income Tax:*

- ✦ Basic personal allowance: VND of 9 Million/month
- ✦ Dependent allowance: VND of 3.6 Million/month
- ✦ Progressive rates : 5% - 10% - 15% - 20% - 25% - 30% - 35%
- ✦ Tax schedule:
 - ✓ Income from capital investment, royalties, franchise : 5%
 - ✓ Income from prize winning, inheritance, gifts : 10%
 - ✓ Capital transfers: 20% net income (calculated by selling price, minus the purchase price & reasonable expenses related ; or 0.1% selling price of the securities.

SUMMARY OF MAIN TAXES IN VIETNAM

(cont'd)

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3. Value-Added Tax:

- ❖ Tax rate: 0% for exports, 5% for “essentials” and 10% standard rate.
- ❖ Exempt threshold: Goods and services provided by business households and individuals that earn annual revenue of less than VND of 100 million (US\$ 4,490)

- ### **4. Excises Tax (Special Consumption Tax):** Base is sales price divided by $(1 + \text{tax rate})$. Not levied on goods that are directly exports, or goods brought to Vietnam by Aid agencies

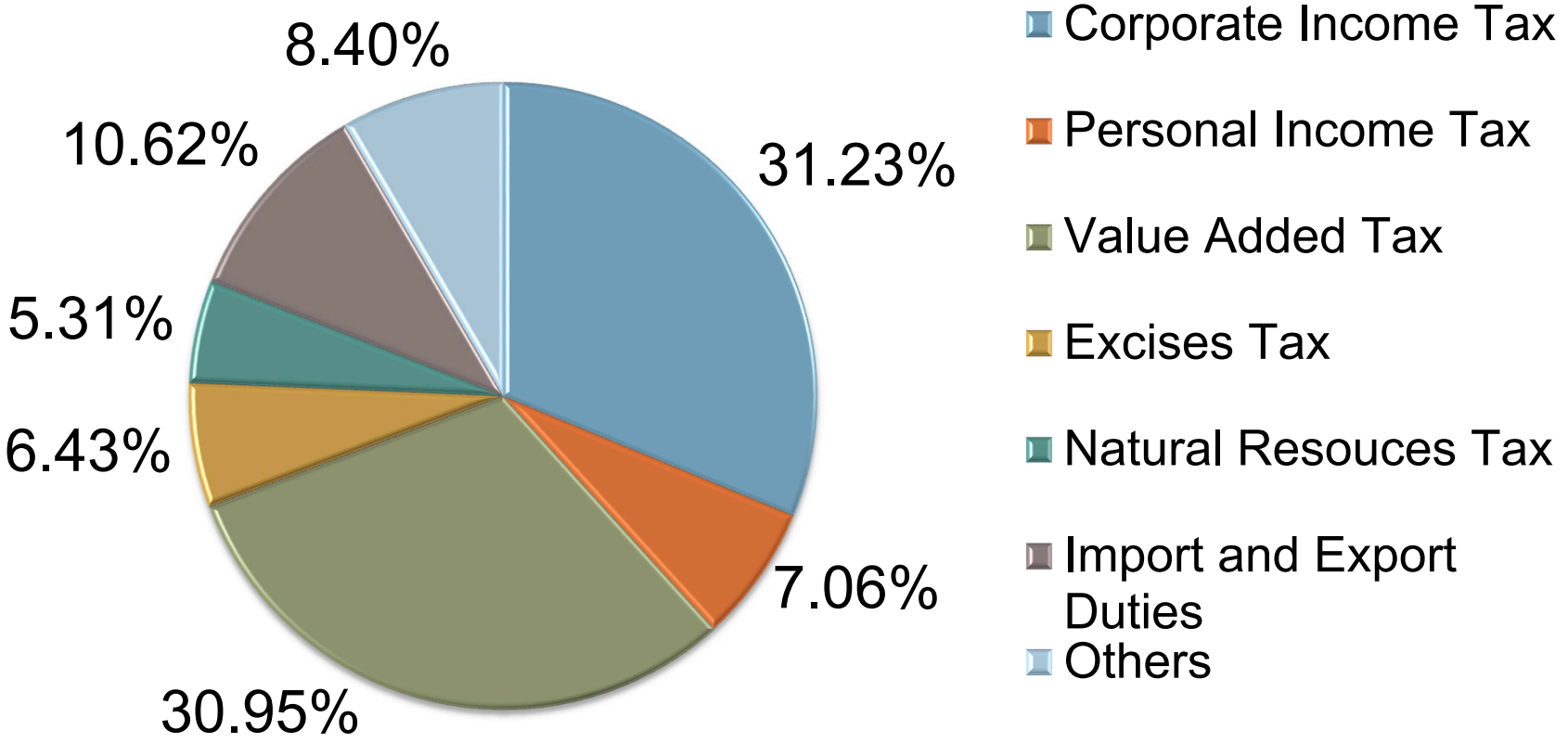
SUMMARY OF MAIN TAXES IN VIETNAM

(cont'd)

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- 5. *Natural resources:*** 5 to 55% on metallic minerals; 4 to 20% on coal; 6 to 40% on oil; 0 to 10% of natural gas; 5 to 35% on natural forest products.
- 6. *Import duties:*** Levied on CIF price, average tariff is about 8%.
- 7. *Export duties:*** Levied on a few items only Oil: 4%. Wood: 5% to 20%. Cashews: 4%

TAX REVENUE STRUCTURE (as 2013)



TAX ADMINISTRATION SYSTEM

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★ MISSION

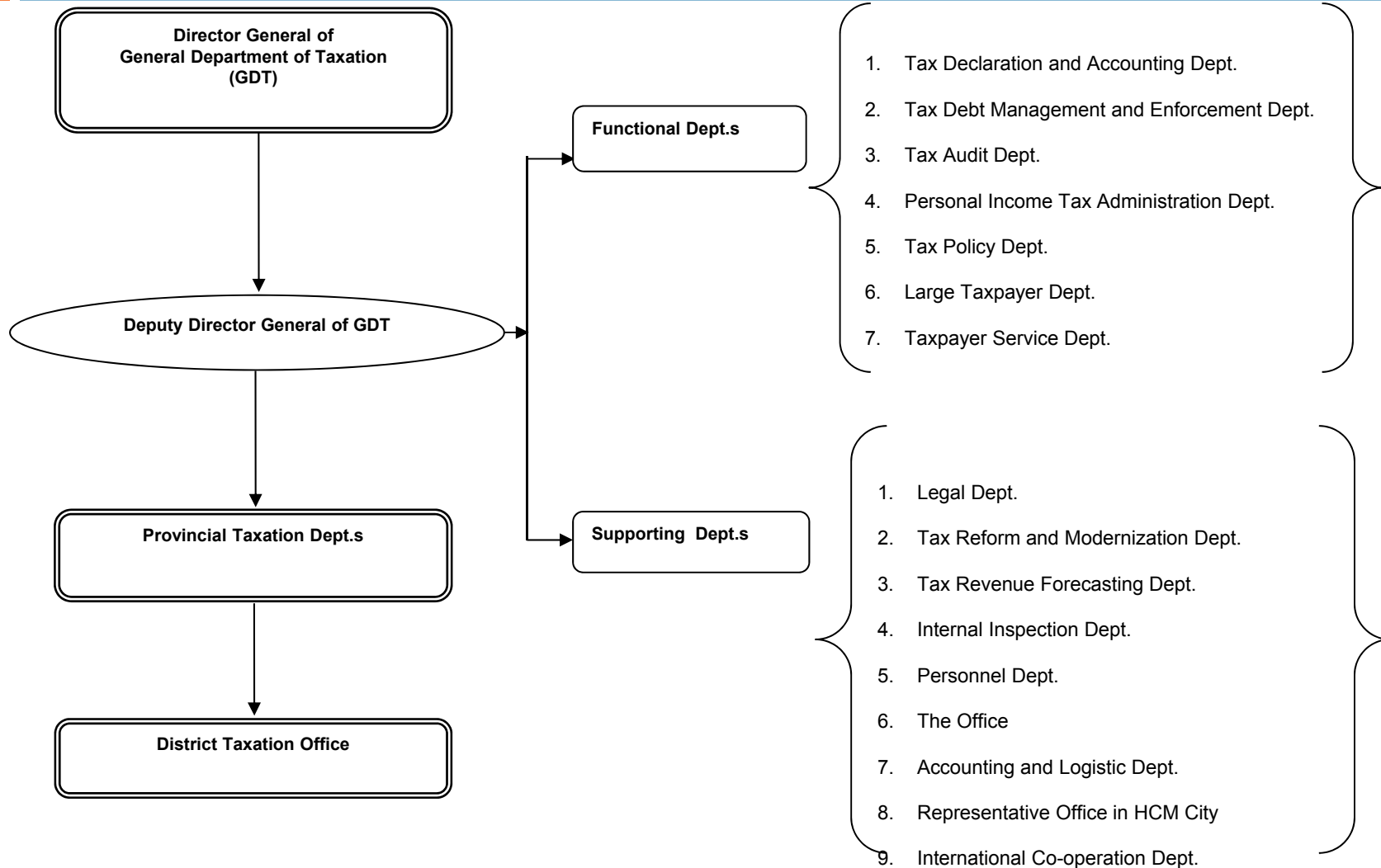
- Establishing effective and efficient tax administration
- Supporting business and individual taxpayers in complying with tax laws
- Building quality and integrity human source

★ VISION

- Become a modern, professional, effective and efficient tax administration
- Become the most reliable partner to all organizations and individuals in implementing the tax laws
- Strive to become one of the leading tax administrations in Southeast Asia in term of favorable ranking

ORGANIZATION CHART

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TAX ADMINISTRATION SYSTEM

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- ★ Vertical apparatus and divided into 3 levels
 - General Department of Taxation
 - Provincial Tax Department (63 Provincial Tax Dep't)
 - District Tax Office (694 District Tax Offices)
- ★ Number of staffs: 43 thousands
 - GDT: 732 officers (account for 1.7%)
 - PTD: 8,775 officers (account for 20.4%)
 - DTO: 34,516 officers (account for 77.9%)
- ★ Number of Taxpayers:
 - About 500.000 Enterprises, and
 - 17.000.000 people with Tax Individual Numbers (TIN)

TAX ON CAPITAL GAINS – Indirect Transfer

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- ✦ In Vietnam, Capital gains are treated as “other income” and are subject to personal income tax or corporate income tax.
- ✦ The income of an enterprise from a capital assignment refers to the income receivable from the assignment of a part of or the whole of an enterprise’s capital already invested in it to one or more other organizations or individuals (including the sale of the entire enterprise).
- ✦ The corporate income tax rate applicable to income from a capital assignment is 22 percent of the profit (20% from 2016).

TAX ON CAPITAL GAINS – Indirect Transfer (cont'd)

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- ✦ The personal income tax rate applicable to income from a capital assignment is:
 - ✓ 20% net income (calculated by selling price, minus the purchase price & reasonable expenses related) ; or
 - ✓ 0.1% selling price of the securities.
- ✦ Generally, indirect transfer of interest has not been clearly regulated yet in Vietnamese Tax Laws. There are some rules that may be applied in some particular cases, for example: Circular 36/2016/TT-BTC guiding implementation of regulations on taxes applicable to organizations, individuals conducting petroleum prospecting, exploration and exploitation as stipulated by the Law on Petroleum.

TAX ON CAPITAL GAINS – Indirect Transfer (cont'd)

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- ★ Circular 36/2016/TT-BTC : Taxing on Transfer of participating interests in petroleum contracts means an organization, individual sells, transfers its share of investment capital (including assets, money) in petroleum contracts, petroleum enterprises, [or] petroleum joint venture enterprises in Vietnam, transfers title, changes ownership or control right of a contractor party or otherwise determines part or all of its rights, interests and obligations in the petroleum contracts, petroleum enterprise, petroleum joint venture enterprise in Vietnam (transferor) to one or more other organizations, individuals (transferee), except for the cases of restructuring, internal financing arrangement of the transferor or consolidation of the parent company of the transferor. The transferor shall have obligations and interests applicable to a contractor conducting petroleum prospecting and exploitation operations.

TAX ON CAPITAL GAINS – Indirect Transfer (cont'd)

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- ★ Circular 36/2016/TT-BTC : Where an enterprise established overseas transfers its shares, investment capital (including assets, money) or other similar interests in an enterprise established overseas which directly or indirectly owns assets, participating interests in petroleum projects in Vietnam, and this transfer results in the change to the owner of the contractor currently holding participating interests in petroleum contract in Vietnam, this is also considered as transfer of participating interests in petroleum contract. The aforesaid foreign enterprise making the transfer is considered as the transferor.

Indirect Transfer – Consideration & Discussion

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- ✦ Vietnam is now facing some challenges related to taxing indirect transfer of interest of Foreign Enterprises. Since Vietnam is relatively rich in natural resources such as oil and gas, minerals, lumbers and fishery resources. Understanding the advantage of natural resources in Vietnam, many foreign investors participated in investment projects in Vietnam, after a while the project owner (the parent company or ultimate holding company) transfers that project to other foreign entities. The whole process of this transfer was done overseas, so it is very difficult for Vietnam to tax the profit which obtained from the transfer.

Indirect Transfer – Consideration & Discussion

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- ✦ The whole process of this transfer was done overseas, so it is very difficult for Vietnam to tax the profit which obtained from the transfer. The example is that
 - ✓ Company X in Vietnam is owned 100% by Company Y in Singapore, Z Corporation in the U.K is ultimate holding Company of Company Y.
 - ✓ Z Corp. sells Co Y to A Corporation. The question is how Vietnam tax authority tax the profit arising from that transaction?

THANK YOU FOR YOUR ATTENTION !