

**Chandrawat
& Partners**

DOING BUSINESS IN VIETNAM

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TABLE OF CONTENTS

CONTENTS	PAGE NO.
1. INTRODUCTION	2
2. ECONOMIC OVERVIEW	3
3. FOREIGN DIRECT INVESTMENT POLICY	4
4. KEY SECTORS	5
5. ADVANTAGES OF DOING BUSINESS	7
6. TYPES OF BUSINESS ENTITIES	9
7. HOW TO SET UP A BUSINESS?	11
8. TAXATION	13
9. ACCOUNTING STANDARDS	14
10. EMPLOYMENT AND LABOR LAWS	15
11. HOW WE CAN HELP?	17



INTRODUCTION

Vietnam has emerged as a favoured destination for foreign investment in Southeast Asia, particularly following its reopening in 2022, which spurred recovery from the pandemic. The country's economic growth in early 2022 was notable, driven by rising incomes and a transparent investment environment.

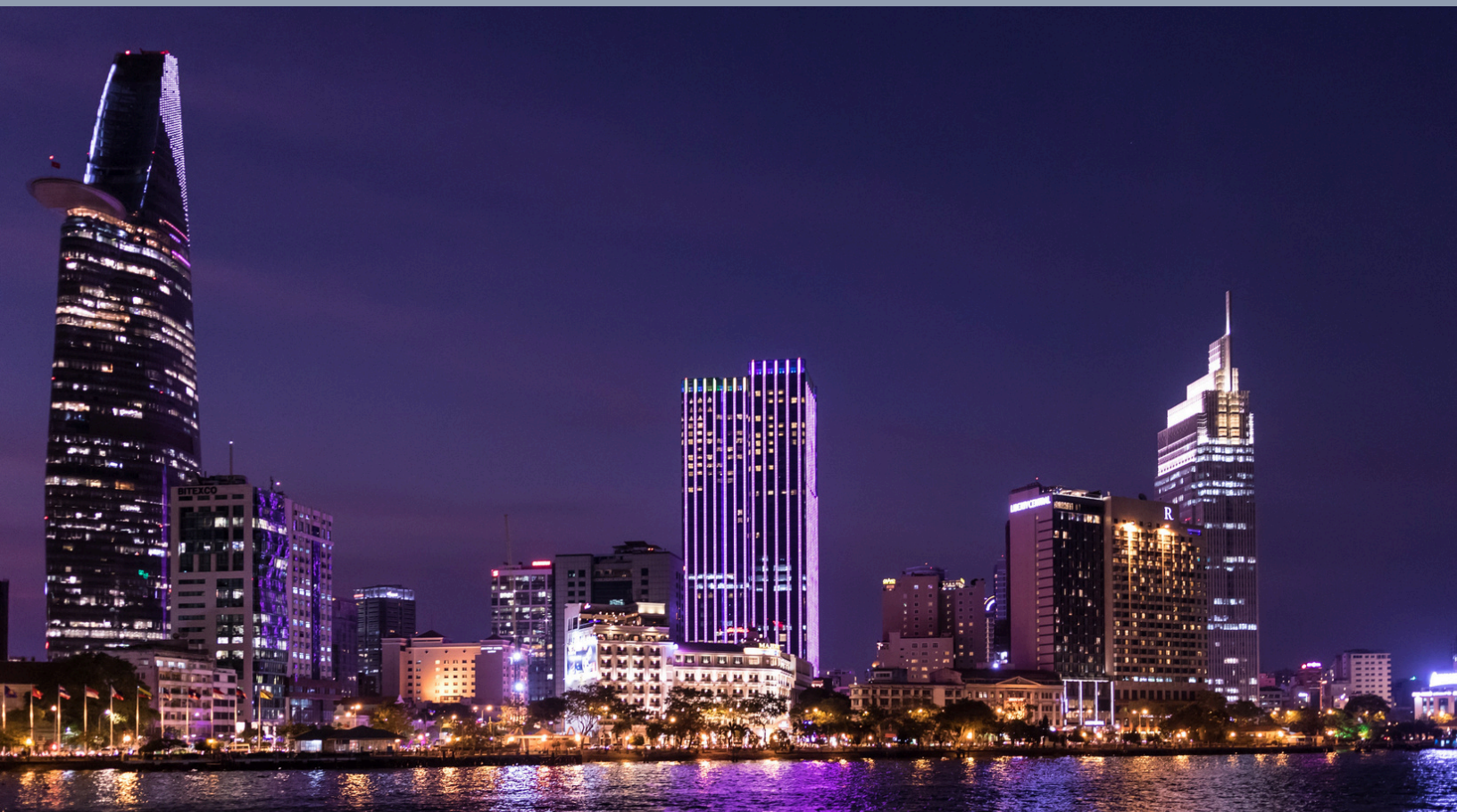
To attract foreign investors, the Vietnamese government has introduced various investment and tax incentives, prioritized infrastructure improvements, and expanded industrial real estate. Additionally, Vietnam has increased its participation in Free Trade Agreements (“FTAs”) to strengthen global economic ties. Vietnam has made significant strides in enhancing its business environment. Its large, young, and highly educated workforce, with a literacy rate exceeding 90%, further positions Vietnam as an attractive investment opportunity.

ECONOMIC OVERVIEW

Vietnam has transformed itself into one of the strongest developing economies in the world. Its Doi Moi policy, implemented by the government in the late 1980s, has featured a range of tactics aimed at increasing its attractiveness to foreign investment and building a resilient, modern economy.

Today, the government continues this commitment to world trade with numerous treaties, including the EU-Vietnam Free Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and strategies to continue reforms to legislation and bureaucracy. In the last few years, Vietnam has also shown impressive ambition to get ahead of digitisation and industry 4.0. The country is rolling out its 5G network, has a thriving ecommerce sector and is currently in the process of a variety of e-government initiatives.

Vietnam has transformed itself with its sights set on becoming a developing, upper-middle-income country with modern industry by 2030 and a high-income, developed country by 2045.



FOREIGN DIRECT INVESTMENT POLICY

As of 2023, Vietnam remains an appealing destination for foreign investors, bolstered by its proactive Foreign Direct Investment (“FDI”) policy. The country has entered into 15 free trade agreements (“FTA”) with key partners, including -

- Japan-Vietnam Economic Partnership Agreement;
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

By the end of 2022, Vietnam's FDI stock reached \$274 billion.

FTA advancements aim to enhance market access for Vietnamese exports and promote investor-friendly reforms.

Vietnam's new investment strategy focuses on attracting high-tech and high-value foreign investments, which will strengthen the nation's technological capabilities and drive economic growth.



KEY SECTORS

- **Energy:** With a high demand for energy, the Vietnamese government is actively promoting investments in renewable energy sources.
- **High-Tech Manufacturing:** Significant investments in manufacturing, particularly in electronics, have made this sector a major contributor to the country's GDP.
- **Agriculture:** The government encourages investment in agriculture and rural development, capitalizing on the country's large agricultural base.
- **Infrastructure:** Domestic infrastructure improvements, particularly in transportation, energy, and telecommunications, are a government priority.
- **Information Technology:** The digitization of the economy is crucial, supported by a substantial pool of skilled IT professionals.



- Real Estate: The real estate market is experiencing rapid growth, backed by government initiatives to attract investment.
- Retail: Driven by a young and increasingly affluent population, Vietnam's retail market is expanding quickly.
- Transport and Logistics: Vietnam's strategic location enhances its role as a gateway for multinational cargo routes.
- Securities: The stock market is on the rise, with government policies fostering investment.
- Garments and Textiles: As one of the largest exporters in this sector, Vietnam continues to attract investment.



ADVANTAGES OF DOING BUSINESS IN VIETNAM



Vietnam has become one of the most attractive investment locations in Asia, especially for foreigners.

Specifically, some key highlights of Vietnam's business environment include:

- GDP growth is at 5.05% in 2023;
- Over 36,278 FDI projects, with total registered capital reaching around US\$438.7 billion;
- Duty-free between the EU and Vietnam in several sectors; and
- Along with that, Vietnam has an open business environment that attracts foreign investment.



Competitive Labour Cost

- Vietnam has a young population and a potential workforce. Remarkably, the country's average wage cost is more competitive than the neighbouring countries like China.
- According to statistics, the manufacturing labour cost per hour in China was US\$6.5, while in Vietnam the cost is only around US\$3, half as much as that of China.

Regulatory Framework

- The regulatory system in Vietnam is supported by an open business environment, transparent investment policies, and favourable profit-based incentives for enterprises.
- Generally, the Enterprise Law and Investment Law of 2015 are fundamental laws that govern the incorporation and operation of companies in Vietnam.
- These laws have standardized individual' carte blanche to do business in permitted business areas and reduced a broad array of administrative hassles to enterprises.

TYPES OF BUSSINESS



Sole proprietorships

A sole proprietorship is an enterprise owned by a single individual. The owner of a sole proprietorship is liable for all activities of the enterprise and there's no separation between their assets and assets of the enterprise. Each individual may establish only one sole proprietorship.

Partnerships

A partnership must have minimum 2 partners who are joint owners of the company and operate under one shared name. A partnership may also have multiple limited partners, where such Limited partners are only liable for the debts of the partnership within the capital amounts they have contributed.

Single-Member Limited Liability Companies

A single-member limited liability company is owned by either an organization or individual. The owner is liable for all debts and asset obligations within the company's charter capital.

Two-Member Limited Liability Companies

A two-member limited liability company can have between 2 to 50 members. All members are liable for the company's debts and asset obligation, but only within the capital amounts they contributed.

Joint-Stock Companies

To form a joint-stock company, at least 3 shareholders are required, though there's no upper limit on the number. A joint-stock company has legal entity status and can issue shares in accordance with the law.



HOW TO SET UP A BUSINESS

1. Choose a Business Structure:

There are different business structures that are established in Vietnam, including Limited Liability Company, Joint Stock Company, Partnership, Branch, Representative Office, and Business Cooperation Contract.

2. Obtain an Investment Registration Certificate (“IRC”):

This certificate confirms that the government has provided approval for investing in Vietnam.

3. Obtain Regulatory Permission:

Permission from the requisite authority would also be required for forming a company in Vietnam.

4. Choose a Legal Address:

A business requires a legal address in Vietnam to incorporate a company in the country. Most businesses require that it have its own physical location, such as an office or building leased or acquired, particularly for manufacturing, distribution and trading, retail services, restaurants and entertainment venues, and more.



5. Submit Required Documents:

The following documents are required for company registration in Vietnam:

- Investment Certificate
- Enterprise Certificate.

6. Post Licensing Procedures:

Once the IRC and ERC have been issued, additional steps have to be taken to complete the procedure and start business operations. This includes seal carving, bank account opening, labor registration, business license tax payment, charter capital contribution, and more.

7. Capital Requirements:

There are no minimum capital requirements for company registration in Vietnam. However, the registered capital will be assessed by The Department of Planning and Investment for whether it is adequate to cover the expenses of the business until it generates enough revenue to cover its costs.

8. Timeframe:

The company setup process in Vietnam typically takes three to four months to establish an LLC or 100% Foreign-Owned Enterprise.



TAX IMPLICATIONS

Corporate Income Tax

- Vietnam's corporate tax framework is designed to benefit both domestic and foreign businesses. The standard corporate income tax ("CIT") rate is set at 20%, though this may vary for specific industries, such as oil and gas. Companies in prioritized sectors or regions can access special tax incentives, including reduced rates or tax holidays.

Value Added Tax

- In Vietnam, value-added tax ("VAT") is imposed on a wide range of goods and services consumed within the country, with different rates applicable. The VAT rates vary from 0% for exported goods and services to a standard rate of 10% for the majority of domestic goods and services. Companies have the option to calculate their VAT liabilities using either the deduction method or the direct method.

Personal Income Tax

- Personal income tax ("PIT") regulations in Vietnam stipulate that residents are taxed on their global income, whereas non-residents are only taxed on income earned within the country. The PIT rates are progressive, varying from 5% to 35%. Both employers and employees are required to adhere to specific rules regarding tax residency, allowable deductions, and the finalization of tax obligations.

Foreign Contractor Withholding Tax ("FCWT")

- FCWT applies to foreign entities conducting business in Vietnam under contracts with Vietnamese parties. It is relevant for various types of contracts, including those for services and goods. Certain exceptions exist, such as pure purchase contracts and services performed entirely outside Vietnam.

Double Tax Agreements ("DTAs")

- Vietnam has signed DTAs with over 80 countries, aiming to prevent double taxation and provide tax relief for income earned across multiple jurisdictions. These agreements are crucial for foreign investors and businesses operating globally, facilitating cross-border trade and investment.

ACCOUNTING STANDARDS

The enterprises listed below are subjected to the Vietnam Accounting Standards (“VAS”):-

Applicable Entities:

- All economic entities operating in Vietnam, including wholly foreign-owned companies, branches, and representative offices governed by VAS.
- Individuals, family businesses, and cooperative groups.
- Accountants and other accounting professionals.
- Non-profit organizations, both state-funded and non-state-funded.

Following are the Accounting and Tax Compliance for Vietnam Enterprises:-

Annual Tax Report Requirements:

- General Information: Include phone number, address, and principal bank contact.
- Business Operations Summary: Report on activities such as market research, advertising, and service agreements from the previous year.
- Human Resource Reports: Document salaries, insurance, benefits, bonuses, and employee responsibilities.

Accounting Periods:

- Yearly: January 1 to December 31.
- Quarterly: 3-month periods.
- Monthly: 1-month periods.
- First Accounting Period: Begins from the issuance date of the Business Registration Certificate until the end of the applicable accounting period.

EMPLOYMENT POLICIES

Allowances and Benefits:

- Non-taxable benefits include housing, life insurance, telephone allowances, and educational support for employees' children.

Compensation Structure:

- Salaries and bonuses subject to personal income tax (PIT).
- Performance-based bonuses to enhance morale and productivity.

Female Employee Provisions:

- Breaks for breastfeeding and during menstruation.
- Minimum three working days off for menstruation, with additional wages for work done during breaks.

Hiring Foreign Employees:

- Foreign companies must comply with the Labour Code.
- Recruitment of foreign workers requires public announcement of vacancies 30 days prior.





LABOUR LAWS

Minimum Wages:

- Common minimum wage: VND 1,490,000 (US\$64) for state-owned entities.
- Zone-based minimum wages for non-state enterprises.

Employee Rights:

- Protection against discrimination based on various factors (e.g., gender, race, disability).
- Guidelines against sexual harassment in the workplace.

Union Regulations:

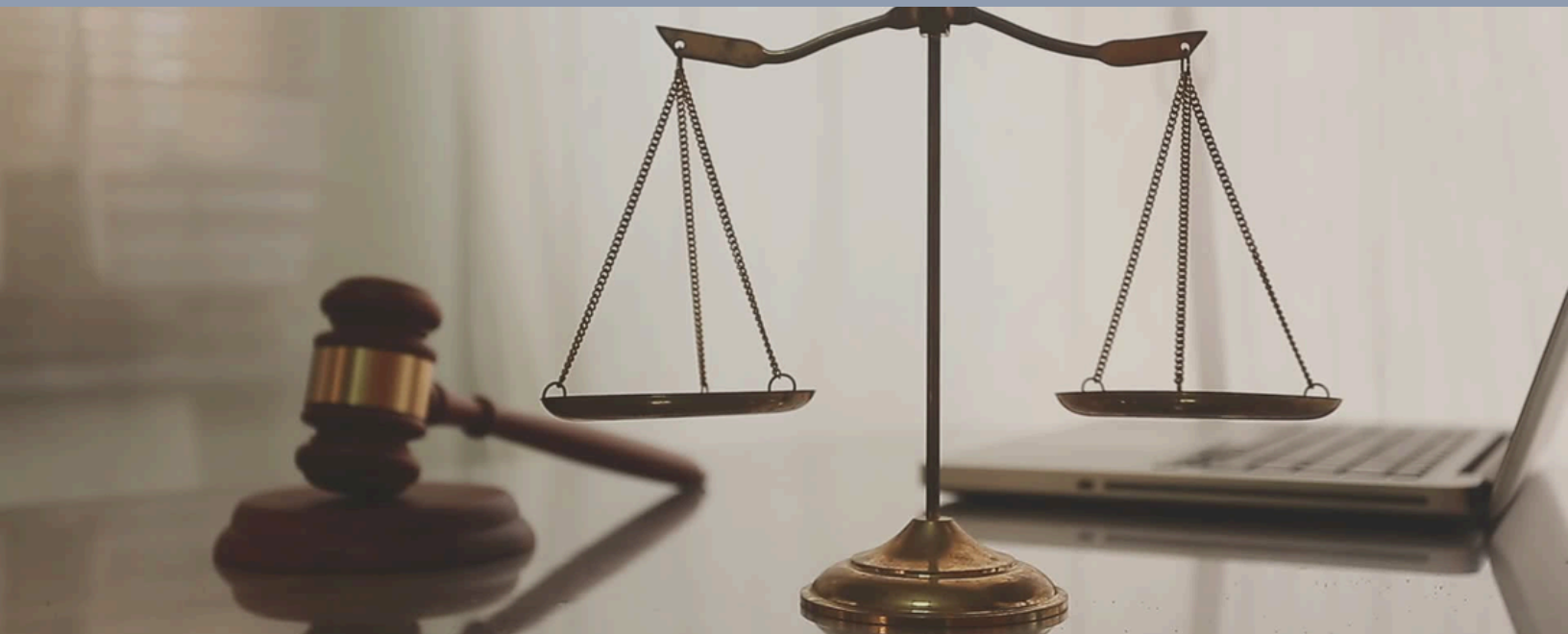
- Independent trade unions allowed but must be approved by state authorities.

Labour Supervision:

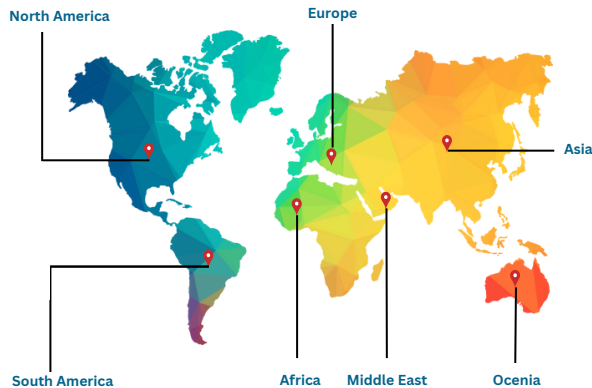
- Employers must maintain a labour-management book and report changes every six months.

HOW WE CAN HELP?

- Our team assists in setting up an entity such as a corporation, partnership, limited liability company ("LLC"), or sole proprietorship along with all compliances as required.
- We also assist in provisions related to nominee director, nominee shareholder and similar positions (such as authorised representative, bank other signatory).
- Our team Investigates and identifies any licenses, permissions or registrations required for the client's specific area or industry.
- Our team of professionals conducts comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.
- Our experts help in setting up a clear objectives, outline actionable steps, and identify opportunities for growth and expansion.
- Our team conducts risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.



SERVING CLIENTS WORLDWIDE



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