

Chandrawat
& Partners

Guide to do business in
VIETNAM





ABOUT VIETNAM

Located at the center of ASEAN countries, Vietnam is one of the most prospective economies in Southeast Asia. It shares boundaries with the Pacific Ocean, Gulf of Thailand, Laos, Cambodia and China, providing Vietnam with favorable conditions for international shipping and trading. Being one among the fastest-growing economies in the world, the country is an attractive place for foreign investors. Vietnam joined the World Trade Organization ("WTO") and concluded several free trade agreements, such as; Korean Free Trade Agreement, Eurasian Economic Union Free Trade Agreement, EU Vietnam Free Trade Agreement, which support Vietnam's eagerness to promote its economic growth.

ADVANTAGES

With the help of following points one should delve into a better understanding for the benefits of doing business in Vietnam:

Strategic location

Vietnam is located close to the manufacturing hub of southern China, which is one of the world's largest economies and most influential trading hubs. Due to this proximity, Vietnam also becomes an attractive investment location for foreign investors, who are not only finding ways to penetrate the Vietnam market but also looking for access to supply chains from China.

High-growth economy plus potential market

As per World Bank report Vietnam's Gross Domestic Product ("GDP") has steadily increased over recent years, ranging from 6.2% in 2016 to 7.02% in 2019 and projected 6.8% for 2021. This speedy expansion rate has made Vietnam relatively stand-out among the fastest-growing economies in Asia. Vietnam is a dynamic and emerging market with great potential. Among the key cost-related factors, the following factors attract foreign investors -

- Vietnam offers a fairly low cost labour;
- Young population and potential workforce; and
- Country's average wage cost is much more competitive than those of neighboring countries.

Ease of doing business

As an incentive to attract foreign investors and encourage entrepreneurial development, the government has made significant changes in country's regulatory business environment. This made it much easier for worldwide businesses to operate in Vietnam. As per the World Bank scores, Vietnam is one of the most improved countries in the following areas:

- lowering the cost of starting a business;
- expanding the accessibility of information and notifications online;
- lowering employers' contribution to the labor fund tax; and
- removing requirements to submit hard copies of Value Added Tax ("VAT") returns which can now be done electronically.

Developing infrastructure

Driven by the demands of its own people and growing trade, the country is experiencing a significant construction boom aimed at building up its infrastructure. An important factor in the country's competitiveness, the construction sector receives major support from the government.

Regulatory framework

Vietnam's regulatory system is appreciated by its open business environment, transparent investment policies, together with favorable profit-based incentives for enterprises.

Free Trade Agreements

As member of ASEAN, Vietnam has signed several Free Trade Agreements with countries worldwide, which improves the trade efficiency and reduce the tariff barriers.

SIMPLE TAX REGIME

Vietnam offers a variety of tax benefits for entities doing business in Vietnam. New investment projects can enjoy tax incentives based on the sector, location and size of the project conducted. Taxes in Vietnam can be classified as follows:

Corporate Tax

- The standard Corporate Income Tax (CIT) rate is 20% of annual turnover.
- Enterprises operating oil and gas industry are subject to CIT rates ranging from 32% to 50% of annual turnover, depending on the location and specific project conditions.
- Enterprises engaging in prospecting, exploration, and exploitation of mineral resources, for example, silver, gold, gemstones are subject to CIT rates of 40% to 50% of annual turnover, depending on the project's location.
- There is no concept of tax residency for CIT. Business organizations established under the laws of Vietnam are subject to CIT and taxed on worldwide income.
- 20% CIT shall be applicable to foreign income. There are no provisions for tax incentives for such income.
- There are no local, state, or provincial income taxes in Vietnam.

Foreign organizations, carrying out business in Vietnam without setting up a legal entity and/or having Vietnam-sourced income, are considered foreign contractors, irrespective of whether the services are performed inside or outside Vietnam. Payments to foreign contractors are subject to Foreign Contractor Tax (FCT), which consists of Value-Added Tax (VAT) and CIT elements.

Individual Taxes

Tax residents are subject to Personal Income Tax (PIT) on their worldwide taxable income, wherever it is paid or received. Employment income is taxed on a progressive tax rates basis. Non-employment income is taxed at a variety of different rates.

In case of Non-resident, the income has been taxed at a rate of 20% of annual income. Non-residents are subject to PIT at a flat tax rate on the income received as a result of working in Vietnam/Vietnam-related income in the tax year, and at various other rates on their non-employment income.

Foreign investors can form below mentioned legal entities in Vietnam;

Limited Liability Company ("LLC")

It is the most common legal entity type in Vietnam and an excellent choice for small and medium-sized enterprises (SMEs). Investors can take advantage of its simple corporate structure, which requires one founder only. However, it is not permissible for LLCs to issue public shares and be publicly listed on the Vietnamese stock exchange.

Joint-Stock Company ("JSC")

JSC is recommended for medium and large-sized businesses as its corporate structure is complicated and requires a minimum of three founders. Its registration process is often delayed due to more demanding requirements. Although, JSCs allows its owners to issue shares and be listed on the public stock exchange.

Representative Office ("RO")

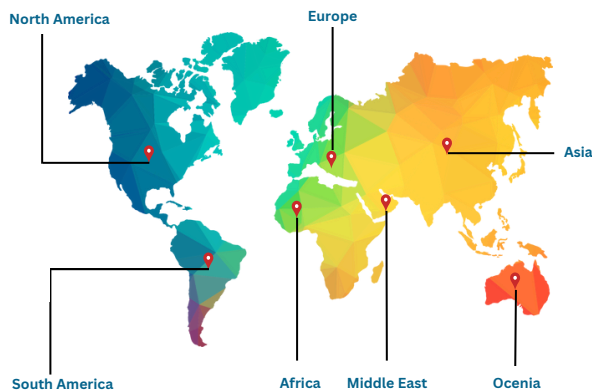
This type of entity is perfect for foreigners wanting to observe the local market and gain market presence before expanding. They are not allowed to conduct business activities that generate income and behave like an ordinary company. The head office of ROs to sign, adjust/supplement contracts on behalf of foreign company, if He/she is authorized by its legal representative, with the power of attorney being present.

Branch Office

A branch office serves as an extension of its parent company. Owners of branches in Vietnam can conduct all parent companies' commercial activities and make a profit without incorporating a separate legal entity.

VIETNAM COMPANIES

SERVING CLIENTS WORLDWIDE



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