



Personal Income Tax reduction of 50% for individuals working or doing business in economic zones

Introduction

On 09 September 2009, the Ministry of Finance issued **Circular 176/2009/TT-BTC (“Circular 176”)** providing guidelines on the reduction of Personal Income Tax (“PIT”) of **50%** for individuals working or doing business in **economic zones** in Vietnam.

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Prior to the introduction of Circular 176, Decree 29/2008/ND-CP of the Government dated 14 March 2008 (“Decree 29”) provided in general terms that Vietnamese and foreign individuals working in economic zones are entitled to 50% PIT reduction. Circular 176, however, provides much more detail in terms of who is subject to this concession and how the reduced PIT amount is determined.

Circular 176 now provides consistent PIT treatment individuals working in all economic zones while previously (prior to the issuance of Decree 29) the PIT incentives were provided under specific regulations of the Prime Minister for each economic zone.

Circular 176 governs incomes earned from 1 January 2009.

We summarize below the key details for timely implementation at your organization, if applicable.

Who is subject to PIT reduction?

PIT reduction in accordance with Circular 176 is applicable to individuals, both **Vietnamese** and **foreigners, residents** and **non-residents**, who **physically** work in economic zones, including:

- Individuals who work in economic zones under employment contracts with business entities located in economic zones;
- Individuals working for organizations outside economic zones, including foreign contractors, but who are assigned to work in economic zones under contracts entered between such organizations and business entities located in economic zones;
- Individuals/group of individuals who conduct business activities in economic zones; and
- Individuals working in economic zones under contracts with Board of Management of economic zones, state authorities based in economic zones.

Accordingly, it is noted that employees of business entities located in economic zones but who do **not** physically work in economic zones do not qualify for PIT reduction under Circular 176.

Which incomes are covered?

- **Employment income** received for the work performed in economic zones.
- **Business income** earned from business activities within economic zones.

Determination of reduced PIT amount

Generally, the reduced PIT amount is determined as below:

Residents

- Individuals who only have employment income and/or business income derived from the work and/or business activities performed in economic zones:

$$\text{PIT reduced amount} = \text{Total PIT payable on employment income and/or business income} \times 50\%$$

- Individuals who have employment income and/or business income derived from both inside and outside economic zones:

$$\text{PIT reduced amount} = \text{Total PIT payable} \times \frac{\text{Employment and/or business income derived from work done in economic zones}}{\text{Total employment and/or business income}} \times 50\%$$

Non-residents

$$\text{PIT reduced amount} = \text{Employment income and/or business income derived from work done in economic zones} \times 20\% \times 50\%$$

Compliance procedures

Circular 176 also provides compliance procedures for employers, employees and business individuals, of which we highlight the following details:

- Employers, both inside and outside economic zones, must take into account any eligible income subject to PIT reduction when performing the monthly withholding as well as the monthly and annual employers' PIT declaration;
- Employers outside economic zones must make the contracts entered into with business entities located in economic zones available to the tax authorities upon request.

Comment

One issue that requires clarification is the interaction of Circular 176 with the general PIT exemption for the first six months of 2009 under Circular 160.

LIST OF ECONOMIC ZONES AND BORDERGATE ECONOMIC ZONES

Type	No.	Name	Location
Economic Zones	1	Van Don	Quang Ninh
	2	Dinh Vu - Cat Hai	Hai Phong
	3	Nghi Son	Thanh Hoa
	4	Dong Nam Nghe An	Nghe An
	5	Vung Ang	Ha Tinh
	6	Hon La	Quang Binh
	7	Chan May - Lang Co	Thua Thien Hue
	8	Chu Lai	Quang Nam
	9	Dung Quat	Quang Ngai
	10	Nhon Hoi	Binh Dinh
	11	Nam Phu Yen	Phu Yen
	12	Van Phong	Khanh Hoa
	13	Dinh An	Tra Vinh
	14	Kien Giang	
Bordergate Economic Zones	1	Ta Lung	Cao Bang
	2	Tra Linh	Cao Bang
	3	Tra Linh - Soc Giang	Cao Bang
	4	Thanh Thuy	Ha Giang
	5	Ma Lu Thang	Lai Chau
	6	Son La	Son La
	7	Tay Trang	Dien Bien
	8	Lao Cai	Lao Cai
	9	Dong Dang	Lang Son
	10	Chi Ma	Lang Son
	11	Mong Cai	Quang Ninh
	12	Bac Phong Sinh	Quang Ninh
	13	Hoanh Mo - Dong Van	Quang Ninh
	14	Cau Treo	Ha Tinh
	15	Cha Lo	Quang Binh
	16	Lao Bao	Quang Tri
	17	A Dot	Thua Thien Hue
	18	Nam Giang	Quang Nam
	19	Duong 19	Gia Lai
	20	Bo Y	Kon Tum
	21	Moc Bai	Tay Ninh

	22	Xa Mat	Tay Ninh
	23	Bonuê	Binh Phuoc
	24	Dong Thap	Dong thap
	25	An Giang	An Giang
	26	Ha Tien	Kien Giang
	27	Xa Xia	Kien Giang

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