

Tax Alert

Keeping you informed

September 2011

Update on Tax Cuts Policy



Tax Incentive Policy Update

Further to the temporary guidance of the Ministry of Finance for implementation of Resolution 08/2011/QH13 approved by the National Embassy on 06 August 2011 which were updated in our Tax Alert on 26 August 2011, the following detailed guidance were included in the recent **draft Decree** of the Government on tax breaks for certain corporate and individual tax payers.

Corporate Income Tax (“CIT”) deduction

30% CIT reduction on 2011 CIT payable will be granted to:

- Small and medium – sized enterprises (“SMEs”), **excluding**:
 - Income from lotteries, real estate, securities, finance, banking, insurance, and provision of services/goods subject to special sales tax;
 - SMEs classified as the first and the premium level in the Economic Groups; and
 - SMEs whose holding company owning above 50% of its shareholdings is not an SME.

The draft Decree refers to **Decree 56/2009/ND-CP** which defines SMEs in terms of their total capital resources (equivalent to total assets) or number of employees.

For enterprises in the sectors of agriculture, forestry, fishing, industry and construction, they must not have more than **300 employees** whilst the threshold is **100 employees** for enterprises in the trade and service sectors.

- Labor-intensive enterprises, **including**:

Enterprises in the sectors of manufacturing, processing of agricultural products, agro-forestry-aquatic production, garments and textiles, footwear, electronics and construction of socio-economic infrastructure having more than **300 employees** (not including short-term employees with seasonal contracts of less than 03 months) on average in 2011.

The industry codes covering the above incentive sectors are stipulated in **Decision 10/2007/QĐ-TTg** dated 23 January 2007 of the Prime Minister.

Conditions for CIT reduction are stipulated as follows:

- Enterprises should maintain full accounting books, invoices, documents and pay taxes in accordance with the regulations;

- Enterprises should separately recognize profit from activities subject to the CIT reduction. In case the profit cannot be recognized separately, the one entitled to CIT reduction can be determined based on the ratio of revenue from activities entitled to CIT reduction over total revenue in 2011.
- Enterprises incorporated on or after 01 January 2011 can notify tax authorities on the application of a temporary revenue apportionment ratio to determine the profit entitled to CIT incentives. Any adjustments if any shall be made at the year-end tax finalization.

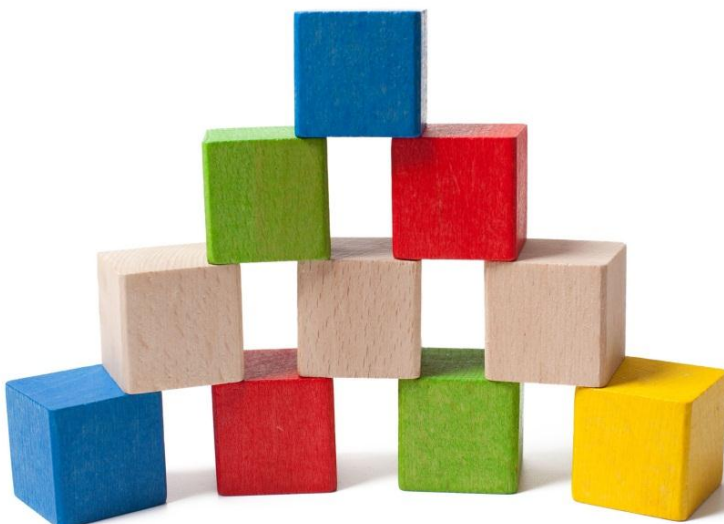
Personal Income Tax (“PIT”)

- From **1 August 2011 to 31 December 2011**, individuals having assessable employment income and/or business income subject to PIT at the progressive tax rate of **5%** (i.e. up to VND5 million) will be exempted from PIT. The exempt PIT amount shall be determined based on average tax payable in either full 12 months of the year 2011 or 05 months from 1 August to 31 December 2011, which is preferred.

Individuals having employment income and/or business income subject to the progressive rate of 10% upwards are not entitled to such exemption;

- **50%** PIT reduction will be granted to income from securities transfer activities receiving within the period from **1 August 2011 to 31 December 2012**;
- From **1 August 2011 to 31 December 2012**, dividend income is entitled to PIT exemption, except those derived from joint-stock banks, financial investment funds and credit institutions. The exemption includes dividend of year 2012 but distributed after 31 December 2012.

We shall continuously keep you updated should there be further development in this regard.



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