KRESTON NNC

Key Tax Planning Considerations

Nam Nguyen
Managing Partner | Kreston NNC

Contents

Trends in Vietnam

What we are seeing in Vietnam:

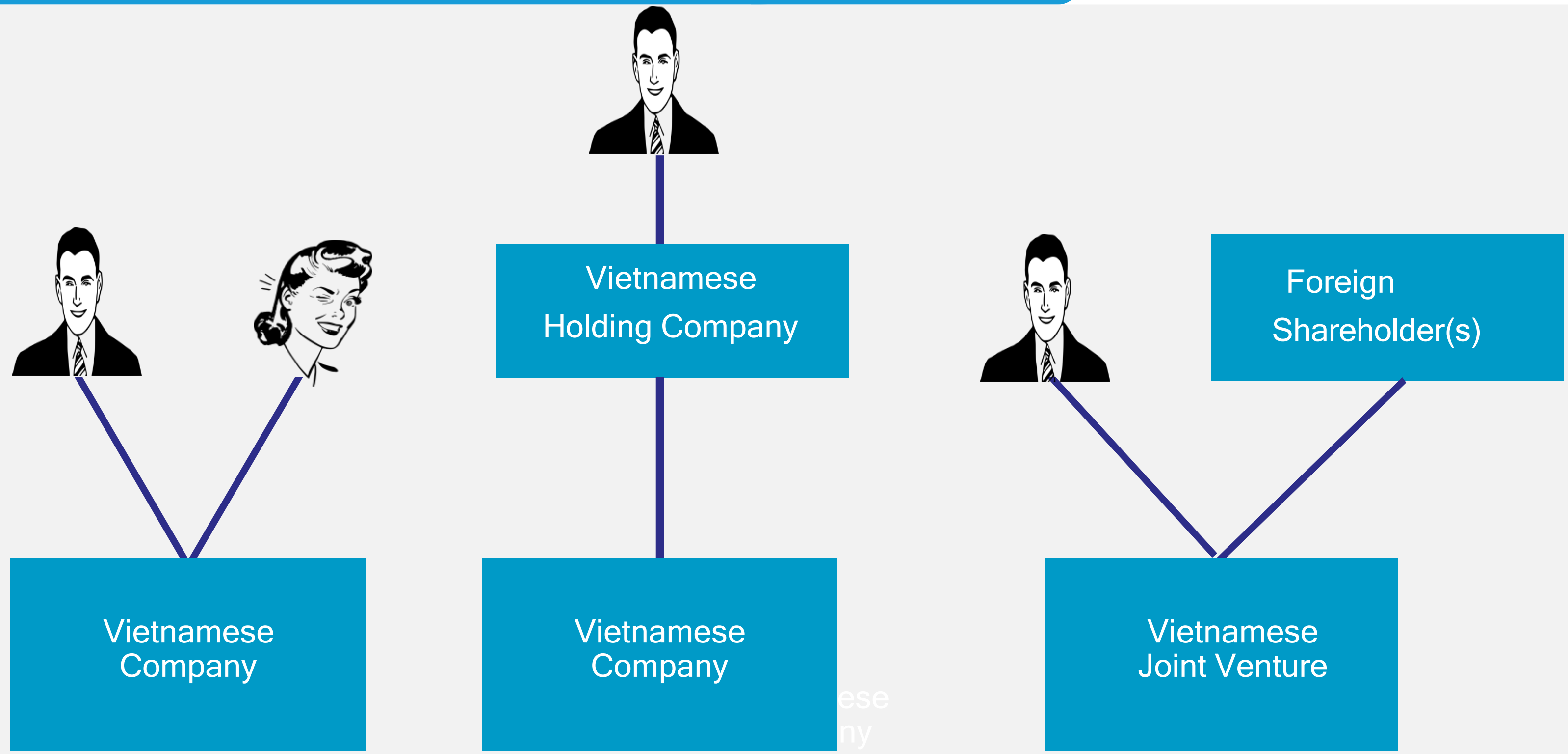
- Fast economic growth
- Move from hiding to transparency & compliance
- Move from onshore to offshore
- Tax authorities' increasing focus on taxation of individuals
- Investment law easing restrictions on offshore investments

What you/your business needs

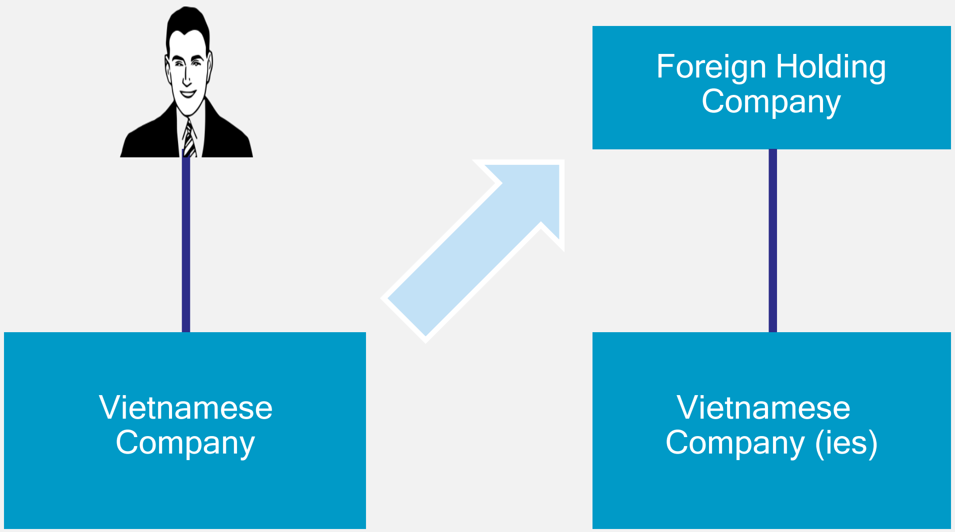
Wealth Management & Estate Planning Options

- Onshore: Family => Corporate holding company
- Offshore: Offshore holding company/Trust
- Direct/indirect offshore investment
- M&A, re-structuring, migration

Wealth Management & Estate Planning Options - Traditional onshore holding structure



Wealth Management & Estate Planning Options - Contemporary onshore holding structure



Why?

- Wealth protection
- M&A
- Tax efficiency

Wealth Management & Estate Planning Options - Contemporary offshore holding structure

KRESTON NNC

- No dividend withholding tax
- 0% tax in an offshore jurisdiction

- Dividends
- Royalties
- Interest
- Capital gains
- Property rental

Offshore holding company

Vietnamese Company

Foreign Operating Company

Bank accounts

Why offshore holding company?

- Foreign sourced income tax exemption
- Investment source income tax exemption
- Access to effective and more favourable tax treaties
- Availability of Trust and Trust can act as a shareholder
- Bilateral investment treaty guarantees:
    - ✓ Investment protection
    - ✓ Fair and equitable treatment
    - ✓ Free transfer of assets
    - ✓ Protection from expropriation or nationalisation
    - ✓ Prompt and adequate compensation at market value

Trust solution for Vietnamese business owners & their family

Settlor

Beneficiaries

Trustee

Protector

Why trust?

Trust's benefits and advantages:

- Confidentiality
- No Vietnamese inheritance tax at 10%
- Asset protection
- Personal income tax deferral
- Anti-forced heirship
- Reserved powers
- Trustees supervisory framework

Onshore (Vietnam) tax considerations

KRESTON NNC

- Personal Income Tax (on dividends, capital gains etc)
- Corporate Income Tax (on business profits)

Onshore (Vietnam) tax considerations

KRESTON NNC

Vietnam's Personal Income Tax:

- Vietnam taxes residents on world-wide income (at 5%-35%) and non-residents on Vietnam-sourced income (at 20%), regardless of where they get paid.
- Tax rates for tax residents are relatively high, with 35% top marginal rate and few tax deductions. Effective tax rate for tax residents is approx. 1/3 of gross employment income.
- No tax-free day-count threshold for business visitors. On becoming a tax resident, overseas business/investment income may become taxable in Vietnam.
- All Vietnam-sourced income is taxable even if a person does not spend any day in the country.

Onshore (Vietnam) tax considerations

Personal Income Tax:

For both residents and non-residents, non-employment income such as business income/investment income is taxed at separate flat tax rates from 0.1% to 20%, specifically:

- 5% on interest, dividends, property rental income
- 2% on income from sale of real estates;
- 0.1% on income from sale of shares in a listed company or joint-stock company.
- 20% on the net gain from sale of shares held in a limited liability company by a resident shareholder;
- 10% on income from inheritances.

Tax treaty reliefs are available where a tax treaty applies. Vietnam has entered tax treaties with over 80 countries, and most of them are now effective.

Onshore (Vietnam) tax considerations

Corporate Income Tax:

- Tax incentives: up to 4 years of tax holiday, 9 years of 50% tax reduction, and a reduced tax rate of 10% (up to 15 years) or 17% (up to 10 years) – standard rate is 20%;
- Tax deductions for accelerated fixed asset depreciation at 200% (for steady profit-making businesses);
- In most cases, foreign taxes on corporate profits and individual income are creditable in Vietnam, even if there is no tax treaty.
- Generally, no strict thin capital rules (except for few business sectors);
- Low interest withholding tax rate on foreign loans – only 5% (while most tax treaties cap at 10% or 15%), in comparison with 20% interest tax deduction benefit;
- 0% dividend withholding tax (while most tax treaties cap at 5%, 10% or 15%);
- Corporate dividends are taxed only once at the operating business;
- Royalty withholding tax is 10% which aligns with the rate capped by most tax treaties.

Offshore (international) tax considerations

Individual's tax residence:

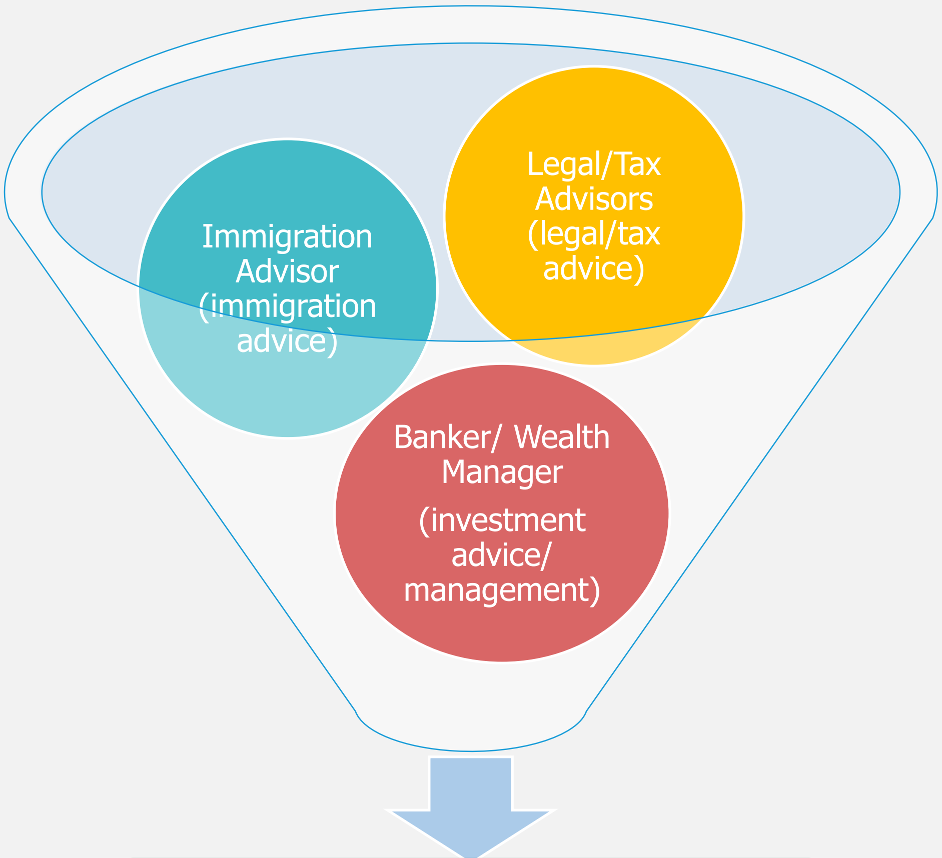
- Domestic tax laws of each country are different. Tax residence is defined differently.
- OECD tax treaties have a standard 183-day residence test.
- A person may pass the 183-day test but may fail other tests (e.g. legal domicile test or other common law tests).
- Normally, tax treaties prevail but this does not always work in practice.
- A person could be caught as a tax resident of more than one countries.
- Residents are often taxed at a higher effective rate than non-residents.
- Some countries tax individuals on world-wide income (including Vietnam), other may tax individuals only on onshore income (i.e. foreign income is exempt).
- Domestic tax rules vary from country to country. Tax treaty rules are applicable only when a person is subject to double taxation.

Offshore (international) tax considerations

Bilateral investment & tax treaties:

- Offshore holding company – Choice of countries with a bilateral investment and/or tax treaty with Vietnam, tax-haven countries.
- Vietnam has over 60 bilateral investment treaties with and over 80 tax treaties - Popular tax treaties include:
  - ✓ France
  - ✓ Japan
  - ✓ Luxembourg
  - ✓ The Netherlands
  - ✓ Singapore
- Taxable presence/permanent establishment (PE) issues.
- Caps on tax rates under tax treaties (for dividends, interest and royalty).
- Domestic tax laws and anti-avoidance rules in the offshore countries.

How advisors add value



Wealth management/estate planning solutions
(family | real assets | financial assets)
Structuring ideas | Execution | Management

Thank you

Nam Nguyen
Kreston NNC
+84 938464763
nam@kreston-nnc.com
www.kreston-nnc.com