In-Depth Tax Advisory

Personal Income Tax for Foreigners – What FDI Enterprises Must Know

VINA BOOKKEEPING

Section I: Resident vs. Non-Resident Individuals in Vietnam

Correctly determining tax residency status is the **most critical first step** — it determines the scope of taxable income and applicable tax rates for foreign employees working in Vietnam.

Why It Matters

Residency status determines whether global income or only Vietnam-sourced income is taxed, and whether progressive or flat tax rates apply.

Two Key Criteria

A foreign individual is a tax resident if they meet either the **time-presence test** (≥183 days) or the **permanent home test** (registered address or rental ≥183 days).

Different Tax Treatment

Residents face progressive rates of 5%–35% on global income; non-residents face a flat 20% rate on Vietnam-sourced income only, with no personal deductions allowed.

SECTION I

Tax Residents (Cá Nhân Cư Trú)

Time-Presence Criterion

Present in Vietnam for **≥183 days** within a calendar year, OR within any consecutive 12-month period starting from the first day of arrival in Vietnam.

Permanent Home Criterion

Has a regular place of residence in Vietnam: address registered on a **Temporary or Permanent Residence Card**, or a lease agreement of ≥183 days in the tax year (cumulative leases count).

Scope of Taxable Income

Global Income — income arising both inside and outside Vietnam, regardless of where it is paid.

Progressive Tax Rate: 5% – 35%

Applied to employment income (salary & wages) using the partial progressive tax bracket schedule.

- **Personal deduction:** VND 15.5 million/month
- **Dependent deduction:** VND 6.2 million/month per dependent
- Mandatory insurance premiums (Vietnam) are also deductible
- Charitable/humanitarian contributions are deductible

Key Note for FDI Companies

Even if salary is paid by the foreign parent company, a resident individual is taxed on that global income. Companies must ensure proper withholding and reporting of all income sources.

SECTION I

Non-Tax Residents (Cá Nhân Không Cư Trú)

Qualifying Criteria

Does **not** meet either residency condition: present in Vietnam for fewer than 183 days AND does not have a qualifying permanent home registered in Vietnam.

Scope of Taxable Income

Vietnam-sourced income only — income arising in Vietnam, regardless of whether payment is received inside or outside Vietnam.

Tax Rate: Flat 20%

Applied on gross taxable income from employment. **No personal deductions** are allowed — no family circumstance deduction, no insurance deduction, and no charitable deduction.

Resident

✅ Global income taxed
✅ Progressive 5–35%
✅ Personal deductions apply
✅ Annual tax settlement required

Non-Resident

✅ Vietnam-sourced income only
✅ Flat 20% rate
❌ No personal deductions
❌ No annual tax settlement required

SECTION II

Tax Residency Certificate (TRC) & Double Tax Agreements (DTA)

When Is a TRC Required?

01

Case 1: Proving Non-Residency in Vietnam

An individual has a permanent home in Vietnam (rental ≥183 days) but has been physically present for fewer than 183 days. A TRC issued by their home country's tax authority proves they are a tax resident of another jurisdiction — overriding the home criterion.

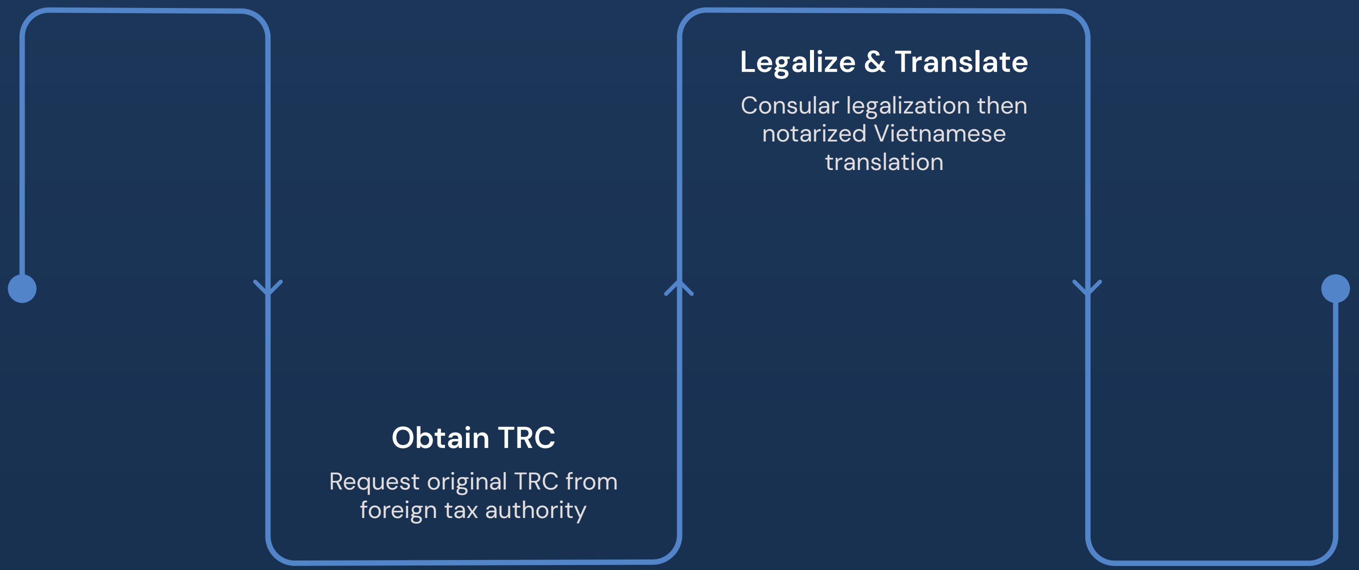
02

Case 2: Claiming DTA Exemption / Reduction

To apply the exemption or reduction clauses of the Double Tax Agreement (DTA) signed between Vietnam and the individual's home country for income arising in Vietnam. A valid TRC is mandatory supporting evidence for this claim.

SECTION II

TRC Application Procedure



Step 1: Obtain Original TRC

Request the **original Tax Residency Certificate** for the applicable tax year from the foreign tax authority of the individual's home country.

Step 2: Legalize & Translate

Perform **consular legalization** (apostille) of the TRC, then have it **notarized and translated into Vietnamese** before submission to the Vietnamese tax authority.

SECTION III

Selecting the Correct PIT Declaration Form

Choosing the right tax form depends on **who files** (the company withholds or the individual self-declares) and the **filing period** (quarterly or annual settlement). There are three main scenarios for foreign employees.

Case 1

Single income source — Vietnamese company only.

The Vietnamese company withholds and declares PIT on behalf of the individual. Treatment is **identical to Vietnamese employees**. Company uses **Form 05KK-TNCN**.

Case 2

Two income sources — Vietnamese company + parent company (no reimbursement).

• Vietnamese company: withholds quarterly on **Form 05KK-TNCN**
• Parent company income: individual self-declares quarterly on **Form 02/KK-TNCN**

Case 3

Two income sources — Vietnamese company + parent company (Vietnamese company reimburses parent).

• Both portions: Vietnamese company withholds monthly/quarterly on **Form 05/KK-TNCN**
• Individual considered to have a **single income source** and may authorize annual settlement via **Form 05/QTT-TNCN**

SECTION III – CASE 3 DETAIL

Case 3: Parent Company Pays, Vietnamese Company Reimburses

Even though the parent company physically pays the salary on behalf of the Vietnamese subsidiary, the **Vietnamese company remains the payer of income** for tax purposes. This creates a specific obligation:

Withholding Obligation

The Vietnamese company must withhold PIT on the **full amount** — including the portion paid by the parent company — on a monthly or quarterly basis using **Form 05/KK-TNCN**.

Single Income Source Treatment

In this case, the individual is still considered to have **only one income source**. Therefore, the individual is permitted to **authorize the paying organization** to finalize (settle) the annual PIT on their behalf.

Annual Settlement Form

The authorized annual settlement is completed using **Form 05/QTT-TNCN** — filed by the Vietnamese company on behalf of the foreign employee.

Summary: Form Quick Reference

Scenario	Company Form	Individual Form
Case 1 – Single source (VN)	05KK-TNCN	—
Case 2 – Two sources, no reimbursement	05KK-TNCN	02/KK-TNCN
Case 3 – Two sources, VN reimburses	05/KK-TNCN	05/QTT-TNCN (authorized)

Important

Misclassifying Case 2 as Case 3 (or vice versa) can lead to incorrect withholding obligations and potential tax penalties during audits.

SECTION IV

Determining the First PIT Settlement Period for Foreign Arrivals

For foreign experts/employees arriving in Vietnam for the first time, the first PIT settlement period depends on actual days present in the **first calendar year**.

01

Step 1: Check Residency from Arrival to 31 December

Assess whether the individual meets **resident criteria** from their first day of arrival to 31/12 of that calendar year.

→ **If YES**: First settlement period = from first day of arrival to 31 December of that year.

→ **If NO**: Proceed to Step 2.

02

Step 2: Count Days in 12 Consecutive Months from Arrival

Count the number of days present in Vietnam during the **12 consecutive months** starting from the first day of arrival.

→ **≥183 days**: First settlement period = 12 consecutive months from arrival date.

→ **<183 days**: Individual is a non-resident; **no annual settlement required** in this first period.

SECTION IV – SUMMARY

First Tax Period: Decision Flow

This two-step test ensures every newly arrived foreign employee is correctly categorized before any PIT filing obligation is triggered.

Outcome A: Calendar Year Period

Resident confirmed in Step 1 → Settlement period aligns with the **calendar year** (arrival date to 31 December). Simpler for annual reconciliation.

Outcome B: 12-Month Rolling Period

Only becomes resident after Step 2 → Settlement period is a **rolling 12-month window** from the exact arrival date. Requires careful tracking.

Outcome C: Non-Resident

Fewer than 183 days in 12 months → Classified as **non-resident**. Only monthly/quarterly PIT returns apply; no annual settlement filing is required for this period.

SECTION V

Final PIT Filing When Foreign Employee Departs Vietnam

Non-Resident at Departure

If the individual is a **non-resident** as of the departure date, **no annual settlement is required**. They need only fulfill monthly/quarterly filing obligations during their stay.

Resident at Departure

If the individual is a **resident** as of the departure date, they must file a PIT settlement return for employment income. **Deadline: 45 days from departure date.**

Who Must File

The settlement obligation rests with the **individual personally**, unless they authorize another organization or individual to settle on their behalf per Civil Law provisions.

Start Period
From Jan 1 of departure year

Employment End
Month contract ends

Departure
Month individual leaves Vietnam

Count Months
Count full months inclusive

SECTION V – DETAIL

Final Settlement Period & Practical Planning

The final PIT settlement period for a **resident individual** departing Vietnam is calculated from **January of the departure year to the month the labor contract ends and the individual leaves Vietnam** (counted as full months).

Standard Scenario

If contract ends in August and the individual also departs in **August**: Settlement covers January – August of the departure year.

Late Departure Scenario

If contract ends in August but the individual departs in **September**: Although the guidance is not fully explicit, in practice tax authorities may require settlement through September (the actual departure month).

VBK Recommendation

To avoid ambiguity and potential disputes with tax authorities, we strongly recommend that **foreign employees plan to leave Vietnam in the same month their labor contract ends.**

Key Deadline Reminder

The PIT settlement return must be submitted within **45 days from the date of departure**. Late submission may result in administrative penalties.

Filing Deadline

45 days from the individual's departure date. Plan ahead — obtain all income records from both the Vietnamese company and the parent company before leaving.

SECTION VI

Deducting Mandatory Insurance Premiums Paid Abroad

Foreign individuals who are **tax residents in Vietnam** are entitled to deduct mandatory insurance premiums paid in their home country from their taxable employment income before PIT is calculated.

Eligible Insurance Types

• Mandatory social insurance
• Mandatory health insurance
• Mandatory unemployment insurance
• Mandatory professional liability insurance (where required by foreign law for specific occupations)

Key Condition

The insurance must be **mandated by the laws** of the country of which the individual is a national or where they are employed. Voluntary insurance premiums are **not deductible**.

Required Documentation

• Copy of payment receipt from the insurance organization, OR
• Confirmation from the paying organization showing deducted/paid amounts
• All foreign-language documents must be **notarized and translated into Vietnamese**

SECTION VII

Tax Credit: Foreign Tax Paid vs. Vietnam PIT Liability

Tax residents in Vietnam who have earned income abroad and already paid PIT in that foreign country **may credit the foreign tax paid** against their Vietnam PIT liability — avoiding full double taxation.

Credit Principle

The amount of foreign tax paid is offset against Vietnam PIT due on the same foreign-sourced income. This applies only to **resident individuals** with global income taxed in Vietnam.

Maximum Credit Cap

The credit cannot exceed the Vietnam PIT calculated under Vietnamese tax schedules, **allocated proportionally to foreign-sourced income**. Any excess foreign tax paid above this cap is **forfeited — not refundable and not carried forward**.

Required Evidence

- **Original tax payment certificate** issued by the foreign tax authority, OR
- Copy of bank payment slip / withholding confirmation from the foreign payer
- All documents must be **translated into Vietnamese** per regulations

Calculation Note

Vietnam PIT on foreign income = (Total Vietnam PIT) × (Foreign income / Total global income). If foreign tax paid exceeds this figure, only the capped amount is credited.

No Carry-Forward

Unlike some jurisdictions, excess foreign tax credits in Vietnam **cannot be carried forward** to the following tax year. Plan accordingly when advising clients on income structuring.

Key Takeaways for FDI Companies

Always Confirm Residency Status First

Residency determination drives every downstream obligation — taxable income scope, applicable rate, deduction entitlement, and filing form selection. Verify at both the start of assignment and at year-end.

Use the Correct Declaration Forms

Mismatching forms (e.g., using Form 05KK when 02/KK-TNCN is required) creates compliance risk. For dual-source income, clearly identify who bears the withholding obligation for each income stream.

Plan Departure Month Carefully

Advise foreign employees to align their departure date with their contract end month to avoid uncertainty in the final settlement period calculation and minimize potential disputes with tax authorities.

Protect Your Company From PIT Compliance Risk

Proactive compliance — correct residency assessment, timely filings, proper documentation of TRC and insurance certificates, and accurate foreign tax credit calculation — significantly reduces audit exposure for FDI enterprises.

VINA BOOKKEEPING

Professional Tax Advisory Services for FDI Enterprises in Vietnam

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