



FAC Newsbrief

# Some important changes of a new Law on Corporate Income Tax

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# At a glance

The National Assembly has just ratified a new Law on Corporate Income Tax. The new CIT Law shall take effect from 1 October 2025 and apply for the tax year 2025 onwards.

Here are some of the notable changes under this new law.

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# General provisions

## 01 E-commerce & Digital Platforms

Foreign companies using these platforms to supply goods/services in Vietnam are now formally included within the scope of the new CIT Law. In addition, these platforms are now officially included in the definition of permanent establishments, potentially impacting double taxation agreement exemption claims.

## 02 Timing of declaration of income From overseas investment

The new CIT Law reverts to taxing overseas income when earned, not upon remittance as previously. Vietnamese companies are allowed to credit CIT paid overseas.

## 03 International tax alignment

The new CIT law recognises international tax developments by allowing the Government to implement more favourable OECD/UN regulations regarding taxing rights on income sourced in Vietnam.

## 04 Exempted profits

New exemptions are added including income from initial carbon credit and green bond transfers, green bond interest, and direct state budget support and income from the Investment Support Fund established by the Government.

## 05 Taxable profits determination and offsetting losses

Losses from real estate or investment project transfers can now be offset against taxable profits from other business activities, except for profits from activities eligible for tax incentives. Income from mineral project transfers must still be declared separately.

## 06 Tax rates

The standard CIT rate remains 20%. However, new tiered rates are introduced for smaller enterprises: 15% for annual revenue up to VND 3 billion and 17% for revenue between VND 3 billion and VND 50 billion. Importantly, these reduced rates do not apply to SMEs affiliated with larger enterprises that do not themselves qualify as SMEs. Deemed CIT rates apply to small enterprises, cooperatives with identifiable revenue but unclear costs, and foreign companies having Vietnam-sourced income. Specific deemed rates will be outlined in a forthcoming decree.

## 07 Primacy of CIT Law

The new CIT law supersedes conflicting provisions regarding CIT incentives in other laws (except for the Law on Capital and National Assembly resolutions on special mechanisms/policies).

# CIT incentives

The new CIT law introduces significant changes to existing incentive schemes in terms of incentivised sectors, locations and the available CIT incentives. Key changes include:

## 01 Expanded incentivized sectors

Several new sectors are now eligible for CIT incentives, including:

- Certain digital technology products/services; researching and developing, designing, manufacturing, packaging and testing semi-conductor chips; AI data centers.
- Automobile manufacturing and assembly.
- SME support services (technical support, incubation, co-working spaces).

## 02 Removal/reduction of certain incentives:

- Industrial zones are no longer eligible for location-based incentives. This means that new investment projects/business expansions in industrial zones are no longer entitled to 2 years exemption and 4 years reduction.
- Incentives for economic zones not located in designated difficult socioeconomic / especially difficult socioeconomic areas are reduced.
- New investment projects with investment capital of VND 6tril or more are removed from the list of incentivized sectors.

## 03 Rules for expansion investment projects

Investment project expansion (increasing scale, capacity, technology innovation, or making environmental improvements in incentivized locations/sectors) can utilize remaining incentives enjoyed by the original project. If those incentives have expired, the incentives applicable to new investment projects in the same location/sector may apply (without preferential rate) if certain conditions are met, requiring separate accounting.

## 04 Grandfather and extended transitional provision

The new CIT law retains a grandfather clause, allowing companies with existing investment incentives to keep those benefits or switch to new incentives if they qualify. Importantly, the law also broadens access to incentives by including projects previously ineligible for such benefits, representing a significant change from prior regulations.

# Tax deductible expenses

The new law makes important changes to the rules on deductibility of expenses:

## 01 Expanded deductibility:

- **Additional R&D deduction:** R&D expenses now qualify for an additional tax deduction beyond the actual costs incurred. The Government will set the specific percentage.
- **Relaxation of matching concept in certain cases:** Several expense categories are now deductible even without directly generating taxable revenue. These include investments in scientific research, technological development, innovation, digital transformation; contributions to public infrastructure supporting business activities; expenses related to greenhouse gas emission reduction (net-zero initiatives) and pollution control linked to business operations.

## 02 Non deductibility

- **Non-compliant activities:** Expenses for activities that don't meet specific legal requirements (conditions and content restrictions under specialized laws) are now non-deductible. This effectively codifies what has been tax authority's practice for many years.
- **Interest expense limits:** Interest on loans from non-credit institutions exceeding the interest rate cap under the Civil Code (currently 20%) is no longer deductible. The previous threshold linked to the State Bank of Vietnam rate is removed.
- **Non-cash payment threshold removed:** The VND 20 million threshold for deductibility of non-cash payments is removed. A forthcoming decree will align this threshold with the VAT regulations

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