

# Inheritance and Gift Taxes in Vietnam

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# Country Presentation Outline

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1. An Outline of the Tax Reform in Vietnam
2. Inheritance and Gift Taxes in Vietnam

# 1- Outline of the Tax Reform in Vietnam

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- Since the end of 1986, Vietnam decided to move the economy from the centrally planned mechanism to the market-oriented economy.
- A series of economic reforms were urgently carried out and the achievements gained nearly 30 years have proved that Vietnam made the right choice.
- Tax reform in Vietnam started in the 1990s when the National Assembly passed important tax laws applying uniformly to various economic sectors and components.

## Outline.... (cont.,)

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# First phase of tax reform (1990-1995)

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- For the first 10 years of the tax reform, Vietnam's tax system included the following tax types: Turnover tax, Special consumption tax (SCT), Import/export tax, Profit tax, Agricultural land use tax, Housing and land tax, Natural resources tax, Income tax on high earners, License tax, fees and charges.
- The pillars of this tax system over the period from 1990-1998 were Turnover tax, Import/export tax and Profit tax.

## Second phase of tax reform (1997-2005)

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- It was implemented in late 1990s in the context that Vietnam signed ASEAN Trade Freedom Agreement (AFTA) and was preparing to negotiate access to World Trade Organization (WTO) with the introduction of modern taxes, which are value-added tax (VAT) and Corporate income tax (CIT). SCT was also amended.
- VAT, CIT, SCT became the pillars of the tax system, ensuring the increase of domestic revenue while the tax rates of import and export were gradually reduced to meet requirements to join WTO .

# Third phase of tax reform (2006-2010)

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- Amending VAT legislation (2008);
  - Opening tax base by reducing the number of goods and services which are VAT exempted;
  - Reforming tax rate structure (Expanding scope of 10%, narrowing scope of 5%); and calculation method (Set the requirement to input VAT deduction as to make payments through the banking system);
- Amending SCT (2005, 2008): Expand the application of SCT for airplanes, yachts of personal use.
  - Reforming tax rates : Reduces taxes on beer and alcohol, non-discrimination treatment between imported and domestic goods to open market due to the commitment of joining WTO.

## Third phase of tax reform (cont.,)

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- Reforming CIT (2008): Reducing tax rate from 28% to 25% and Simplify tax incentives : Narrowing the scope of tax exemptions and reductions.
- Reforming PIT (2007) : Introducing Personal income tax Law (effected from 2009): Expanding tax base and taxpayers, and reassigning tax rates.
- Introducing Law on natural resource tax (2009): Changing regulations on dutiable and tax rates to increase revenue and help protect natural resources.

## Third phase of tax reform (cont.,)

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- Introducing Law on non-agricultural land use tax (2010): Set the tax calculation method according to the percentage of land's price, increases taxes on land used for residing in urban areas, decrease taxes on rural areas' resident land.
- Introducing environment protection tax (2010): A new Tax that targets products whose use is harmful to the environment. This will both create revenue and help change the behaviors of producers and consumers.

## Third phase of tax reform (cont.,)

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- Reforming tax administration
  - Modernization tax administration system
  - Organization
  - Personnel
  - Technology
- Applying self-assessment mechanism
- Tax education and dissemination of information

# Recent Tax Reform (2013 - 2015)

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## CIT Reform:

- Reducing rate of 25% to 22% from 2014 and to 20% from 2016 (SMEs was applied 20% from July 2013)
- From 2015: Removal of the cap on tax deduction for advertising and promotional (A&P) costs.
- New and better incentive for new investment projects engaged in manufacturing industrial supporting products and projects engaging agriculture and aquaculture products or those meeting certain other criteria will be entitled to tax incentives.

## Recent Tax Reform (Cont.,)

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### **PIT Refom (from 2015):**

- Income from winnings at a casino is not subject to PIT.
- New exemption :
  - ✦ Employment income of Vietnamese crew members working for foreign shipping companies or Vietnamese shipping companies that provide international transport services;
  - ✦ Income of shipping owner or individuals working on vessels that provide goods/services to offshore fisheries activities.

# Recent Tax Reform (Cont.,)

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## PIT Refom (cont.,)

- Tax base for computation of income from transfer of securities and transfer of real property generated by residents will be the sale proceeds. This means that, similar to non-residents, income from transfer of securities and real property by residents shall be subject to PIT at deemed rate of 0.1% and 2% on the sale proceeds respectively.
- Business income is no longer subject to PIT at progressive rates as employment income. Business income, under the new Tax Law, is subject to PIT at flat rates of 0.5% to 5% depending on particular business activities, if the annual business income is in excess of VND 100 million.

## Recent Tax Reform (Cont.,)

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### SCT Refom (from 2015):

#### Increasing tax rate on certain goods/services

- Cigarettes, Cigars: 65% in 2015, 70% in 2017& 2018  
and 75% from 2019;
- Spirits/wine with 20<sup>o</sup> alcohol, Beer : 50% in 2015;  
55% in 2016; 60% in 2017 and 65% from 2018;
- Casino, electronic betting games: Curent rate of 30% will be  
35% from 2016

## Recent Tax Reform (Cont.,)

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### **Tax Administration Reform: Simplification on tax administration and filing:**

- List of input invoices and output invoices (purchase and sales) is no longer required for monthly or quarterly tax filing report.
- Taxpayers are generally no longer required to further submit particular documents that have already been available (or submitted) to the government authorities, based on detailed guidance of the government. This would indicate that taxpayers' data should be linked and shared among government authorities to avoid multiple submissions of same documents. The application of this in practice would not be straightforward.

## Recent Tax Reform (Cont.,)

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### **Tax Administration Reform (cont.,):**

- The interest rate of 0.07% per day on overdue tax payment of more than 90 days is abolished.
- Overdue tax payment is now subject to a single interest rate of 0.05% per day.
- Further reform of administrative procedures, creating the best conditions for business: Modernization of the tax filling and collection; Reducing the time of taxpayer in implementation of obligation,...

## 2- Inheritance and Gift Taxes in Vietnam

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- The taxation on inheritances and gifts was laid out in several stages of tax reform in VN.
- Although there were rules for each stage but actual implementation showed that this tax type was of narrow scope of applicability, insignificant revenue but under social pressure.
- In the long term, when the population's income increases and the social life develops following the trend of a modern society and with enhanced management of a legitimate state, then taxation on inheritances and gifts needs to be mentioned and extended in terms of scope of applicability.

# Inheritance & Gift taxes (cont.,)

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- Over the period from 1990 - 2000 the taxation on inheritances and gifts was included in the provisions of the Income Tax Ordinance for high income earners.
- But, those were applied only to gifts in cash and/or kind sourced from abroad. Domestic gifts were not subject to tax because at that time the population's income was very low and people were not used to declare the giving.
- The tax rate of 5% was applicable to gifts worth over 2 million VND at a time. Customs authorities or organizations providing money transfer services were mandated to collect tax of individuals when they were dealing with procedures for transferring/receiving gifts or payments to recipients in Vietnam.

# Gift tax – Policy Implication

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- The reasons of the taxation on gifts received from abroad were explained as follows:
  - ✦ First, the person receiving gifts mainly those who had relatives living abroad, therefore gifts could be controlled and thus the management of tax collection was feasible.
  - ✦ Second, in difficult conditions at that time, local people needed to join hands to build the country. People who received gifts from relatives abroad were able to contribute more than others.
  - ✦ Third, the collection of tax was a way to perform the function of state management for people with relatives abroad

# Tax on Inherited properties in period of 1990 – 2000

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- Civil Law stipulates the basic principles and procedures for inheritance.
- In fact, during this period inheritances were mainly housing and land use rights. With typical family structure with several generations living together, the assets of each family are normally created by several people. Thus, when children start a family, and are given land or production tools by parents, the society does not see it as a gift. It is obvious that people pass away and leave their heritage for their spouse or children; The people and the National Assembly did not agree to tax on inherited properties.

# Taxation on Gifts – Period of 2001 – 2008

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- Standing Committee of the National Assembly enacted Ordinance No. 35/2001/PL-UBTVQH10:
- ✦ No taxation on Inheritances and Gifts that received within domestic.
- ✦ Abolishing of tax on gifts in cash remitted by overseas Vietnamese (to encourage Vietnamese residing overseas to transfer money to invest in the country or support their relatives).
- ✦ Thus, the provisions on taxation on gifts only applied to gifts in kind from abroad.

# Inheritance and Gift Taxes from 2009

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- The Law on personal income tax (PIT) - number 04/2007/QH12 was approved by the Vietnam's National Assembly on November, 2007 with effect from January 1, 2009.
- Accordingly, there are 10 types of income subject to this tax law including income from salaries and wages, income from business, income from capital investment, income from capital transfer, income from transfer of real estate, income from won prizes, income from copyright, income from commercial franchising, income from gifts, income from inheritances.

# Inheritance and Gift Taxes from 2009

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- During discussions before coming to the approval, tax matters on inheritances and gift had been laid out,
- But, when the PIT law was enacted, the scope of taxation included only income from inheritances and gifts that are: Securities, capital holdings in economic organizations or business establishments, Real estate and Other assets subject to ownership or use registration.
- Tax rate : 10%
- Taxable income: Part of the value of the assets inherited or received as a gift which exceeds ten million VND which the taxpayer receives on each occasion such income arises.

# Inheritance/Gift Tax exemption

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- Law on PIT gives the special rules on tax-exempt income from inheritances and gifts that are Residential houses or Land between spouses; parents and their children; adoptive parents and their adopted children; fathers-in-law or mothers-in-law and daughters-in-law or sons-in-law; grandparents and their grandchildren; or among blood siblings.
- Why give Tax exemption ?

## Tax exemption (cont.,)

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- The reasons why the above cases are exempted from tax:
  - ★ The characterization of family structure in Vietnam with multiple generations living together, the society's perception about the properties of individuals living in the same family remains unchanged
  - ★ Housing is a major policy, the State aims to facilitate and encourage people to secure housing themselves and hence exemption is beneficial for people.

# Inheritance/Gift Tax – Actual collection

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- Tax revenues from the tax are not significant,
- In 2013 (Billion of VNĐ) :
  - ✦ Total Revenues: 822,000
  - ✦ Tax Revenue: 654,089
    - ✧ In Which: Revenue from PIT: 46,561
    - ✦ Revenue from Inheritances and Gifts : 25
- Very few cases pile of tax due to:
  - ✦ The narrow scope of the tax
  - ✦ Tax exemption is too broad

# Inheritance/Gift Tax – Reform in the Future

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- Vietnam insights apply to inheritance/gift tax even though it is very difficult to taxes.
- The application of this tax not only aims to raise revenue but also a matter of equality and fairness
- The amendment of this tax not only aims to raise revenue but also a matter of equality and fairness
- The expansion of the scope of application of inheritance tax has the advantage that people are interested in transparency and public property and the government decided to implement anti-corruption.

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**Thank you for your attention !**