An Introduction to

Doing Business in Vietnam 2014

Second Edition

I. Establishing and Running a Business

II. Tax and Accounting

III. Human Resources and Payroll

DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia

Preface

Alberto Vettoretti
Managing Partner, Vietnam

Despite a weak global economy, major foreign investors continue to prioritize their investments into Vietnam. The country is steadily becoming an important manufacturing base for electronics makers who are searching for the next location in the world that is able to provide a well-educated and low-cost workforce. Samsung is moving into Vietnam in a big way. Foxconn Technology Co., Intel Corp., LG Electronics and Canon Inc. are also beginning to drastically expand their investments into the country.

Vietnamese businesses are optimistic about the economic future of the country and are also looking to grow their investments in their businesses. A prime example is VietJet, a discount airline that is aggressively expanding its operations.

The country has a growing workforce; however, there is still a noticeable lack of high-tech skills among job seekers. The Vietnamese government is pushing ahead with skills training programs. Foreign companies are also investing in the future of the country's workforce. Intel is leading a group of technology companies, including Siemens, to train Vietnamese workers by funding training programs intended to develop a high-tech workforce within the country.

An additional reason to be positive about Vietnam is the soon to be completed Trans-Pacific Partnership(TPP) which will place Vietnam in a prime position vis-à-vis tariff free trade links with some of the biggest markets in the world.

Nonetheless, research shows that the efforts to improve the ease of conducting business in Vietnam are seeing mixed results. Vietnam ranks 99 out of 183 countries in the World Bank's "Doing Business 2014" overall ranking, down 1 position from its 2013 ranking. Moreover, when ranked by topic:

- For "Paying taxes" Vietnam is down 4 positions year-on-year to 149,
- "Protecting investors" ranks even lower at 157 (up 2 positions year-on-year),
- "Starting a business" is ranked at only 108 (down 2 positions year-on-year), while
- "Resolving insolvency" ranks at 149 (up 1 position year-on-year).

This publication, designed to introduce the fundamentals of investing in Vietnam, was compiled by Dezan Shira & Associates, a specialist foreign direct investment practice, providing corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia.

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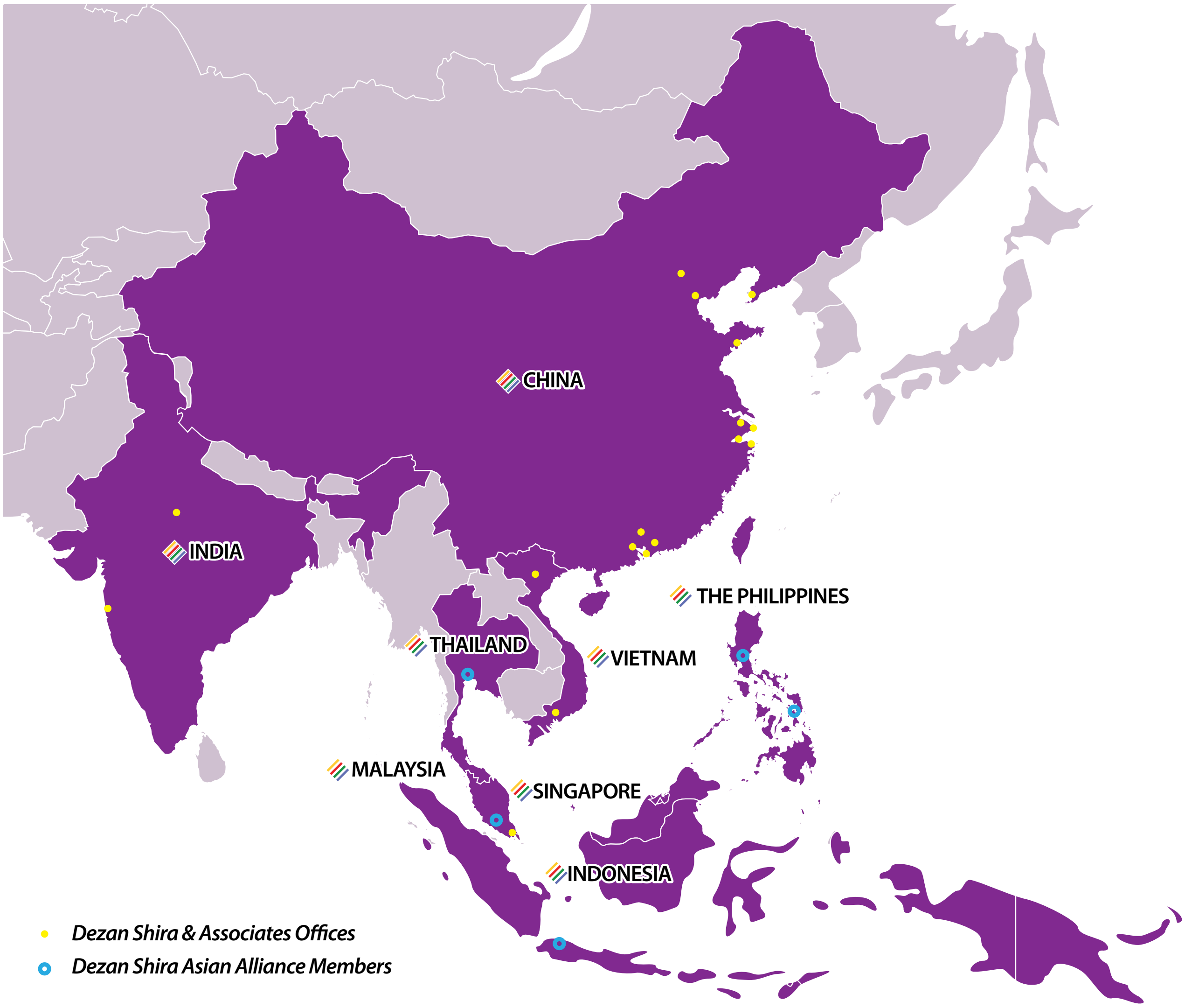
About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. With over 20 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, as well as liaison offices in Italy and the United States, and partner firms across the ASEAN region.



Hoang Thu Huyen
Country Manager, Hanoi Office

Dezan Shira & Associates Vietnam

Dezan Shira & Associates expanded to Vietnam in 2008, and quickly set up offices in Hanoi and Ho Chi Minh City (HCMC). The year 2008 also saw the launch of Vietnam Briefing which has now become a premier source of business intelligence related to Vietnam.

Our staff includes a growing number of Vietnamese chartered accountants and lawyers, all of whom have multiple years of experience advising foreign companies.

Ho Chi Minh City Office	Hanoi Office
	
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Specifically, our services include pre-investment and entry strategy advisory, business advisory, accounting and reporting, treasury administration, tax and compliance, payroll and human resources, and audit and financial review. Dezan Shira & Associates' experienced business professionals are committed to improving the understanding and transparency of investing in emerging Asia.

Our business advisors, tax experts and accountants in Hanoi and Ho Chi Minh City can help you with any questions related to establishing or conducting your business in Vietnam. To talk to a Hanoi or HCMC accountant or business consultant, please **contact us** today.

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Hoang Thu Huyen on the Importance of Vietnam to Foreign Companies

What are some of the key economic indicators I should know about Vietnam?

Despite the recent global economic downturn, economic numbers out of Vietnam continue to be generally positive. The country's gross domestic product (GDP) saw an increase of 5.42 percent in 2013 – this was an increase over the 2012 level of 5.25 percent. GDP for the country in the first quarter of 2014 was estimated to be at 4.96 percent. While lower than the hoped for level of five percent, this was the highest level GDP has been at for Q1 in over three years. GDP for 2014 is predicted to continue on its upward trajectory and reach 5.6 percent. Additionally, the country's consumer price index (CPI) is at just 6.04 percent the lowest rate the country has had in a decade.

FDI has been pouring into the country. In 2013, total FDI amounted to US$16.3 billion, an increase of 54.5 percent year-on-year. Implemented FDI in 2013 amounted to US$11.5 billion, an increase of 9.9 percent over 2012.

As Vietnam has become recognized as a serious player on the global trade stage, it has seen a corresponding positive rise in its trade numbers. The country's trade surplus in 2013 reached US$863 million – in 2012 the surplus was only US$284 million. Vietnam's exports-to-GDP ratio also increased to 75 percent in 2013. The EU is Vietnam's largest export market; the U.S. follows closely as the second largest export market for Vietnam.

Vietnam was found to have the fastest growing middle class in Southeast Asia. By 2020, the country is expected to have 30 million middle class and rich consumers. Alongside Vietnam's rising consumer class, the country's per capita income is expected to increase to US$3,000 by 2020 from its current level of US$1,960.

Why should I move my company to Vietnam now?

There are a number of key advantages that make Vietnam stand out from the rest of Asia. Unlike many other countries in the region, Thailand for example, Vietnam's government is very stable and committed to seeing the country grow. Consumer confidence is strong and improving. Domestic consumption expected to increase 20 percent per year.

Labor costs are currently 50 percent those of China and around 40 percent of those reported in Thailand and the Philippines. The country's workforce is seeing an annual increase of 1.5 million people, and its workers are young and, increasingly, highly skilled.

The country has improving infrastructure and remains a low cost manufacturing hub that provides good financial incentives to foreign companies. An abundance of natural resources is also helping to fuel the manufacturing boom in the country. Additionally, general costs of doing business, such as rent and utilities, are among the lowest in Southeast Asia.

It's a member of ASEAN, the Association of Southeast Asian Nations, which is an incredibly significant market with a combined population of over 600 million people and a combined GDP of about US$2.1 trillion dollars.

Finally, with its strong connections both in the Asia region and in the West, Vietnam is well positioned for any company pursuing a China +1 strategy.

What free trade agreements (FTA) does Vietnam currently have?

Vietnam has a number of free trade agreements, over 60 in total, but those of particular interest to foreign companies are its FTAs with ASEAN and ASEAN's FTAs with India and China. This means that if a company is manufacturing a product in ASEAN that fits into either China or India's free trade agreements, the product can be exported to either of those markets duty free. Vietnam is also finalizing negotiations for an FTA with the EU. Furthermore, when the Trans-Pacific Partnership (TPP) is concluded, Vietnam will have tariff free access to some of the largest markets in the world, such as the United States. Additionally, when the Regional Comprehensive Economic Partnership (RCEP) negotiations conclude in 2015, Vietnam and the ASEAN trade bloc will also be able to participate in free trade with China, India, Japan, South Korea, Australia and New Zealand. Because of this, the RCEP is set to be a really exciting opportunity for foreign companies.

The emergence of Vietnam as one of the world's fastest growing economies is having a significant impact upon shaping the future of foreign investment into Asia. While in the mainstream media the country is often overlooked in favor of China business news, Vietnam is now emerging as a serious alternative to China, and is in fact following roughly the same growth trajectory that China embarked on twenty years ago. Today, it is Vietnam, not China, which is the developing market of choice for many investors.

Related Multimedia: Listen to Chris Devonshire-Ellis' online podcast "The Importance of Vietnam for American Companies." Please **Click Here**

An Introduction to Vietnam

Officially named the Socialist Republic of Vietnam, Vietnam is the easternmost country on the Indochina Peninsula in Southeast Asia. The name Vietnam translates as "South Viet", and was officially adopted in 1945. The country is bordered by China to the north, Laos to the northwest, Cambodia to the southwest, and the South China Sea to the east.

Lying on the right bank of the Red River in northern Vietnam, approximately 85 miles inland from the South China Sea, is the charming capital city of Hanoi. Hanoi is Vietnam's old imperial capital and its modern center of politics and culture. The previous generation of people in Hanoi experienced a strict communist domination. While still recognized for their humility and simpler lifestyle compared to those living in the south of the country, today Hanoi people display an increasing warmth and openness in communication and work.

Despite the recent world economic crisis, Hanoi remains one of the **fastest growing cities** in Vietnam, with its economy expanding 7.88 percent during the first 10 months of 2013.

Vietnam's **commercial center**, Ho Chi Minh City (HCMC), is the country's largest city. It is located in the Southeast region of the country, an area which has long been a focus of foreign investment inflows thanks to impressive growth fueled by a massive energy sector and a thriving manufacturing sector.

With a population of over nine million, HCMC (previously known as Saigon) is the largest city in Vietnam and one of the fastest growing. The city's population is predicted to rise to around 13.9 million by the year 2025.

Vietnam's economy continues to be in a period of transition. In recent years, Vietnamese authorities have moved to implement structural reforms needed to modernize the economy and to produce more competitive export-driven industries. However, Vietnam's economy remains dominated by state-owned enterprises, which produce about 40 percent of Vietnam's GDP. The country is moving from being primarily agrarian to a marked increase in industrial output. Agriculture's share of economic output has shrunk from 25 percent in 2000 to roughly 20 percent in 2013, while industry's share increased from 36 percent to 42 percent during the same period.

However, the country's "three pillar" economic reform program, which proposed the restructuring of public investment, state-owned enterprises and the banking sector, has had little effect so far. The banking sector remains undercapitalized and the level of non-performing loans remains high.

While the global recession was a significant drag on the Vietnamese economy, GDP growth dropped to 5.25 percent in 2012, the country is now in a steady growth phase again. GDP grew at a rate of 5.42 percent in 2013, and is predicted to grow at 5.6 percent in 2014.

The country's export trade continues to be robust and inflation is being brought under control. After running a trade deficit for many years, Vietnam continues to build upon its trade surplus. In 2013, Vietnam's trade surplus reached US$863 million, up from US$284 million in 2012.

Vietnam's main imports include machinery and equipment, petroleum products, steel products, raw materials for the clothing and shoe industries, electronics, plastics and automobiles. Its exports include clothes, shoes, marine products, crude oil, electronics, wooden products, rice and machinery.

Vietnam continues to negotiate free trade agreements (FTA) around the world, of particular importance are the Trans-Pacific Partnership, the ASEAN FTA with China and India, and the FTA with the EU.

Establishing and Running a Business

- How do I establish a company?
- What are my options for investment?

How do I establish a company?

Due to the country's complex legal processes, when establishing a company in Vietnam, we recommend that professional assistance be sought in order to guide companies through the setup process and to help them understand the roles and responsibilities of key positions. This will help ensure that your company is set up for success.

Here, we discuss:

a. Set-up Process
b. Key Positions in Foreign-invested Entities
c. Intellectual Property

a. Set-up Process

The first step in setting up a business in Vietnam is acquiring an Investment Certificate (IC), also known as a Business Registration Certificate. The time period required to acquire an IC varies by industry and entity type, as these determine the registrations and evaluations required:

- For projects that require registration, IC issuance takes about 15 working days.
- For projects subject to evaluation, IC issuance time is likely to vary. Projects not requiring the Prime Minister's approval take 20 to 25 working days, while projects that do need such approval take approximately 37 working days.

In the IC application process, note that under Vietnamese law, all documents issued by foreign governments and organizations need to be notarized, consular legalized and translated into Vietnamese by competent authorities. Once the IC has been issued, additional steps have to be taken to complete the procedure and start business operations, including:

- Seal carving;
- Tax code registration (within ten working days of the issuance of the IC);
- Bank account opening;
- Labor registration;
- Business license tax payment;
- Charter capital contribution; and
- Public announcement of company establishment.

"The first step in setting up a business in Vietnam is acquiring an Investment Certificate (IC), also known as a Business Registration Certificate."

Hoang Thu Huyen
Country Manager
Dezan Shira & Associates, Hanoi Office

Charter Capital
Charter capital can be used as working capital to operate the company. It can be combined with loan capital or constitute 100 percent of the total investment capital of the company. Both charter capital and the total investment capital (which also includes shareholders' loans or third-party finance), along with the company charter, must be registered with the license-issuing authority of Vietnam. Investors cannot increase or decrease the charter capital amount without prior approval from the local licensing authority.

Capital contribution schedules are set out in FIE charters (articles of association), joint venture contracts and/or business cooperation contracts, in addition to the FIE's investment certificate. Members and owners of LLCs must contribute charter capital within the capital contribution schedules set out above.

To transfer capital into Vietnam, after setting up the FIE, foreign investors must open a capital bank account in a legally licensed bank. A capital bank account is a special purpose foreign currency account designed to enable tracking of the movement of capital flows in and out of the country. The account also allows money to be transferred to current accounts in order to make in-country payments and other current transactions.

b. Key Positions in Foreign-invested Entities

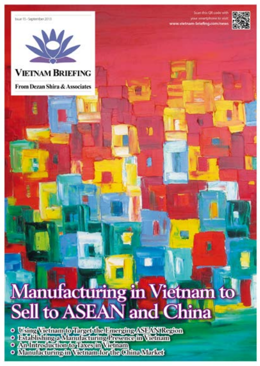
The key positions in foreign-invested entities vary by entity type. Here, we'll discuss the management structure of an LLC.

The management structure of a multiple-shareholder LLC consists of:

- The Member's Council and its Chairman;
- The General Director; and
- The Board of Supervision (when the LLC has more than ten members).

The Member's Council is the highest decision-making body of the company and serves a management role under its Chairman. In an LLC with multiple owners, each member participates in the Member's Council, and where the owner is an entity, that entity can appoint representatives to serve on the Member's Council.

The Member's Council convenes at least once a year, and the Chairman or a shareholder holding at least 25 percent of the share capital can request a meeting at any time. The Chairman is responsible for preparing meeting agendas, convening meetings and signing documents on behalf of the Member's Council.



Manufacturing in Vietnam to Sell to ASEAN and China
Released September, 2013
Vietnam Briefing magazine
Please ***click here***

The General Director oversees the daily business of the company and implements resolutions of the Member's Council.

A Board of Supervision is mandatory if an LLC has more than ten members. The formation, operation, powers and functions of the Board of Supervision are not stipulated in law, but are prescribed in the company's charter (articles of association).

A Board of Supervision is mandatory if an LLC has more than ten members.

c. Intellectual Property

Vietnam's National Assembly passed the *Law on Intellectual Property Rights* (IPRs) in 2005; the law was amended and supplemented in 2009.

In September 2010, in an effort to strengthen the protection of IPRs after entering into the Bilateral Trade Agreement (BTA) with the U.S. and participation in the World Trade Organization (WTO), the government issued stricter administrative sanctions for violations of industrial property rights, along with some important changes to IPR regulations in Vietnam.

Aside from local IPR legislation, Vietnam also participates in international IPR conventions such as the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Rome Convention, the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, the World Intellectual Property Organization, the Patent Cooperation Treaty, and the Madrid Protocol.

The National Office of Intellectual Property of Vietnam (NOIP) is the agency, under the aegis of the Ministry of Science and Technology, which assumes the functions of exercising state management and providing services in the field of intellectual property. This includes administrating the registration of industrial designs, trademarks, brand names and other industrial property rights and conducting legal appraisals to settle intellectual property disputes.

What are my options for investment?

There are two main types of vehicles for foreign investment in Vietnam:

- 100 percent foreign-owned enterprises (FOEs); and
- Joint venture enterprises (JVEs).

100 percent foreign-owned enterprises can be established by one or more foreign investors, under the form of either a limited liability company (LLC) or a joint-stock company (JSC). Joint venture enterprises (JVEs) can be established as an LLC, a JSC, or a partnership company, and profits and risks in a JVE are distributed among the parties in proportion to their contribution to the charter capital. Other options for doing business in Vietnam include representative offices and branch offices, in addition to a number of business contract forms.

In this section, we discuss:

a. Limited liability companies
b. Joint-stock companies
c. Partnership companies
d. Representative offices
e. Branch offices
f. Other investment options

a. Limited Liability Companies

100 percent FOEs and JVEs can be established as limited liability companies (LLC). In an LLC, members are only liable for the debts of the partnership to the extent of the capital contribution they have poured into the company.

There is usually no minimum capital requirement for foreign investors that intend to establish an LLC in Vietnam, although authorities will expect the investor to commit a reasonable amount of charter capital according to the scale and business scope of the project.

An LLC can consist of a single member or multiple members, but the total number of members cannot exceed 50. Investors can be corporations or individuals. An LLC cannot issue shares.

"There is usually no minimum capital requirement for foreign investors that intend to establish an LLC in Vietnam."

Alberto Vettoretti
Managing Partner, Vietnam

b. Joint-stock Companies

FOEs and JVEs can also be established as joint-stock companies (JSC). A JSC can issue securities and bonds, so investors will often choose this form if they plan to go public in the future.

The JSC's charter capital is composed of shares belonging to the founding shareholders in proportion to the capital they have contributed. There is no minimum requirement for the capital contributions of the foreign investors.

A JSC is required to have at least three shareholders. There is no limitation on the maximum number of shareholders, nor on their nature – they can be individuals or institutions, Vietnamese or foreigners.

Setting Up a Foreign-Invested Enterprise in Vietnam
March 21, 2013
Vietnam Briefing News
please ***click here***

c. Partnership Companies

A partnership company is a legal entity established by at least two individuals who are members of the partnership and co-owners of the enterprise. They are the General Partners and are liable for all obligations of the partnership without limit.

In addition, a partnership company can consist of limited liability members (individuals or organizations) who contribute only part of the capital and have limited liability and rights in the operation of the company.

d. Representative Offices

In contrast to JV and 100 percent FOEs, a representative office (RO) is not a legal entity and is forbidden from conducting any revenue-generating activities. Rather, ROs are permitted to conduct market research, serve as a liaison with an overseas parent company and/or serve other supporting roles such as ensuring quality control, acting as a product showroom and helping to facilitate the execution of the contracts of the parent company.

ROs are not subject to tax in Vietnam. **Unlike in certain other Asian countries, ROs are permitted to hire staff directly.**

e. Branch Offices

A branch office is the subsidiary of a parent company and does not constitute a separate legal entity according to Vietnamese law. Unlike the representative office, a branch office is entitled to conduct business activities in Vietnam within the parent company's business scope.

To set up a branch, a parent company must have conducted business in its home country for at least five years.

f. Other Investment Options

Other investment options include a number of business contract forms such as BCCs, BOTs, BTOs, and BTs.

A business cooperation contract (BCC) is typically signed between a foreign investor and a local company or the government of Vietnam with the objective of jointly conducting business operations in Vietnam. BCCs are based on sharing allocation of responsibilities, as well as sharing profits or losses without creating or forming a legal entity in Vietnam.

Build-operate-transfer contracts (BOT), build-transfer-operate contracts (BTO) and build-transfer contracts (BT) are specific projects carried out by foreign investors and an authorized government agency. These additional investment vehicles have been introduced in Vietnam to entice international capital into the infrastructure sector. Business scopes can range from traffic, electricity, production and business, water supply or drainage, waste treatment and other conditional or restricted sectors as stipulated by the Prime Minister.

The difference between these contract types is at what point the title of the project is transferred to the government, namely after the investor operates the project, before the investor operates the project or immediately following completion (in which case the investor does not operate the project and is compensated for capital investment in other ways).

Pros and Cons by FIE Structure Type

FIE Structure Type	Common Purpose(s)	Pros	Cons
Limited Liability Company	• Separate legal entity	• Liability limited to capital contribution • No restrictions on the scope of business	• Cannot issue shares • Maximum 50 shareholders
Joint-stock Company	• Separate legal entity	• Liability limited to capital contribution • No restrictions on the scope of business • Can issue shares and go public • No limitation on the maximum number of shareholders	• Three or more shareholders required • Supervisory Board required for most joint stock companies, depending upon the number and type of investors
Partnership Company	• "Half-separate" legal entity • Generally used for professional services offered by individuals (e.g.: architects)	• One of the partners can be excluded from unlimited liability	• Requires at least two General Partners, individually liable for the partnership debts without limit
Representative Office	• Non-separate legal entity • Market research activities, liaison with overseas parent company, supporting activities	• Easy registration procedure	• Cannot conduct profit-making activities • Parent company bears liability
Branch Office	• Non-separate legal entity • Commercial activities within the parent company's scope	• Can carry out commercial activities within the parent company's scope	• Business scope limited to that of the overseas parent company • Parent company bears liability

Tax and Accounting

- What are Vietnam's major taxes?
- What are some of the key compliance requirements?

An Introduction to Tax and Accounting in Vietnam

In Vietnam, most businesses and investors will find themselves subject to some form of tax. These taxes are imposed at the national level; there are no local, state, or provincial taxes. Dealing with tax and accounting can be a confusing process even for the most prepared business professional. It is recommended that businesses take a careful look at all relevant regulation and engage a professional where appropriate to ensure proper compliance with all laws.

Companies and individuals are subject to a range of taxes in Vietnam, these include corporate income tax, VAT and personal income tax. Complicating matters are the range of double taxation agreements (DTAs) that Vietnam subscribes to. Careful application of the tax regulations and the relevant DTA can greatly improve the taxpayer's outcome. Additionally, there are a number of important tax incentives that can create a further favorable tax environment to operate in. It should be noted that many of the tax incentives and DTA can be confusing and difficult to discern whether or not you qualify, therefore it is strongly suggested that you engage professional advice before moving ahead with any specific tax plan.

Once registered, all companies, whether or not they are operational or profit centers, must file tax declarations. In addition to reducing the administrative burden of compliance with local tax regulations, Dezan Shira & Associates' tax and accounting maintenance services prevent a company's exposure to tax-related risks.
Our tax and compliance services include:

- Monthly / Quarterly /Annual Tax Calculation and Filing
- Corporate and Personal Tax Planning
- Profit Repatriation Processing
- Offshore Tax Withholding and Exemption Services
- Corporate Tax Filings
- Personal Tax Filings
- Transfer Pricing Services (China only)
- Legal and Financial Health Checks
- Temporary Finance Manager
- Annual Consolidated Inspection (China only)
- Annual Tax Compliance
- Assistance with Closure Audit, Tax Clearance and De-registrations
- VAT Compliance and Planning
- Specialist Tax Advice
- Inter-company Service Agreement Implementation

What are Vietnam's major taxes?

All taxes in Vietnam are imposed at the national level, i.e. there are no local, state or provincial taxes. Enterprises should pay tax in localities where they are headquartered or have duly registered branches.

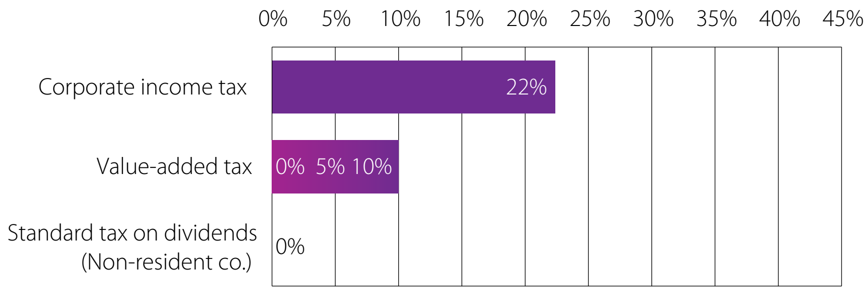
Most companies and foreign investors in Vietnam are subject to the following major taxes:

a. Business license tax
b. Corporate income tax
c. Value-added tax
d. Special consumption tax
e. Foreign contractor tax
f. Customs duties

Personal income tax is covered in the Human Resources and Payroll section.

Many foreign companies underestimate the importance of the initial tax declaration with the local tax department. The documentation submitted can significantly affect tax settlement and tax refunds later.

Major Tax Rates



Foreign investors in Vietnam can increase tax efficiency with Double Taxation Avoidance Agreements (DTAs) between Vietnam and other countries. As of February 2014, Vietnam has signed DTAs with over 60 countries and territories including France, China, Italy, Germany, Singapore and Hong Kong.

a. Business License Tax

Business license tax (BLT) is an indirect tax imposed on entities conducting business activities in Vietnam, paid by enterprises annually for each calendar year that they do business in Vietnam. All companies, organizations or individuals (including branches, shops and factories) and foreign investors operating businesses in Vietnam are subject to BLT.

The amount of BLT due is based on the amount of registered capital, as shown in the accompanying table. For state-owned enterprises, limited liability companies (LLCs) and joint stock companies (JSCs), the registered capital is the charter capital. Additionally, for foreign–owned enterprises and private enterprises, the registered capital is the investment capital.

BLT rates are different for economic entities and for households/individuals doing business. For the latter, the BLT amount depends on monthly income.

Business License Tax (BLT) Rates for Economic Entities

Registered capital (billion VND)	**BLT/year** (VND)
Over 10	3,000,000
From 5 to 10	2,000,000
From 2 to under 5	1,500,000
Under 2	1,000,000

Business License Tax (BLT) Rates for Households and Individuals

Monthly income (VND)	**BLT/year** (VND)
Over 1,500,000	1,000,000
Over 1,000,000 to 1,500,000	750,000
Over 750,000 to 1,000,000	500,000
Over 500,000 to 750,000	300,000
Over 300,000 to 500,000	100,000
300,000 or less	50,000

b. Corporate Income Tax

All income arising inside Vietnam is subject to CIT, no matter whether a foreign enterprise has a Vietnam-based subsidiary or whether that subsidiary is considered a Permanent Establishment (PE).

The Corporate Income Tax (CIT) Law was approved by the National Assembly in 2008 and came into effect in 2009. It was later amended by Law No. 32/2013/QH13 which came into effect on January 1, 2014. CIT is a direct tax levied on the profits (gross revenue minus expenses) earned by companies or organizations.

The standard CIT rate is 22 percent for both domestic and foreign-invested enterprises in most industries. All income arising inside Vietnam is subject to CIT, no matter whether a foreign enterprise has a Vietnam-based subsidiary or whether that subsidiary is considered a Permanent Establishment (PE).

Enterprises having a total annual turnover that does not exceed VND 20 billion shall apply the tax rate of 20 percent. Turnover from the previous year serves as the basis for determining whether enterprises are eligible for the 20 percent tax rate.

When calculating CIT, FIEs can deduct most expenses paid for production and business activities if supported by adequate lawful invoices and documents. Business establishments that suffer losses after tax finalization are entitled to carry forward those losses to future taxable income for a maximum period of five years.

An enterprise that conducts multiple business activities that are subject to different tax rates should calculate the income for each activity separately, multiplying income from each activity by the corresponding tax rate.

Corporate income tax incentives apply to investment projects in specific sectors and areas with difficult socioeconomic conditions, as well as those in high-tech zones and economic zones.

For example, the enterprises listed below are eligible to receive preferential tax treatment in 2014, to include: CIT exemption for up to 2 years, 50% CIT reduction for up to 4 subsequent years, and a CIT rate of 20 percent for 10 years:

- Enterprises' incomes from the implementation of new investment projects, including manufacture of high-grade steel; energy-saving products; machines and equipment for agricultural, forest and fishery production and salt making; and irrigation equipment; production and refining of livestock, poultry and aquatic feeds; and development of traditional trades and occupations.
- Beginning January 1, 2016, enterprises' incomes specified in this Clause will enjoy the tax rate of 17 percent.

In addition to tax incentives, tax reductions may be available for enterprises engaging in manufacturing, construction and transportation activities which employ numerous female staff or ethnic minorities.

c. Value-added Tax

Value-added tax (VAT) is imposed on the supply of goods and services at three different rates: 0 percent, 5 percent and 10 percent (the standard rate).

VAT Rates	
Rate	**Applicability**
0 %	Goods and services for export or sold to non-tariff zones
5 %	16 categories of goods and services such as: • Fertilizers • Medical equipment and instruments • Scientific and technological services • Cultural, exhibition, physical training and sports activities
10 %	Everything else

Goods and services encouraged by the government are exempt from VAT. These include agricultural products, healthcare services and scientific activities, derivative financial and credit services, securities trading, insurance services, education and vocational training, printing and publishing newspapers.

All organizations and individuals producing and trading goods and services in Vietnam are liable to pay VAT, regardless of whether the organization has a Vietnam-based establishment.

There are two different methods of calculating value-added tax: the credit method (also called the "deduction method") and the direct method.

Credit Method

Most businesses are required to use the credit method, which applies to foreign-invested enterprises, foreign parties to business cooperation contracts and business organizations established under the Vietnamese Law on Enterprises.

Credit Method

Payable VAT Amount = Output VAT Amount - Creditable Input VAT Amount

Choosing the Correct VAT Calculation Method in Vietnam
March 10, 2014
Vietnam Briefing News
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Under the credit method, payment and declaration of VAT is made on a monthly basis, where the taxpayer subtracts the input VAT from the output VAT, and pays or claims the balance to the relevant bodies. As the situation is normalized every month, no annual VAT finalization is required at the end of the year.

Direct Method

The direct method applies to business establishments and foreign organizations or individuals without resident offices and which have not implemented the Vietnamese Accounting System, but generate income in Vietnam, along with those in specific industries (such as gold, silver and gem trading activities).

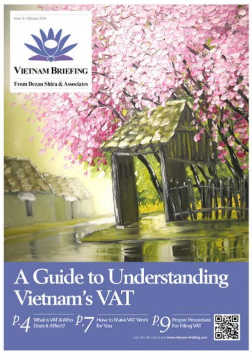
Direct Method

Payable VAT Amount = Added Value of Sold Goods or Services* * VAT Rate

**Added value of sold goods or services = Selling price – Purchasing price of goods or services.*

According to this method, VAT depends on total revenues. As such, the monthly payments are just provisional and the total amount of VAT may be different at the end of the year. Therefore, when using the direct method of calculation, tax finalization procedures must be done within three months following the end of the year.

For goods and services purchased from abroad, VAT applies to the duty paid value (the sum of the value and the duty paid) of imported goods and services. The importer must pay VAT at the same time that they pay import duties to customs.



A Guide to Understanding Vietnam's VAT
February, 2014
Vietnam Briefing
*Please **click here***

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Stay up to date on VAT and other regulatory and legal updates.

d. Special Consumption Tax

Special consumption tax (SCT) is a form of excise tax that applies to the production or importation of 10 categories of products and six types of services which are considered to be luxurious or non-essential.

Special Consumption Tax (SCT) is levied on the production and importation of 11 categories of products and 6 types of services which are considered to be luxurious or non-essential.

SCT is levied on each item of goods only once. Generally, goods and services subject to the SCT are also subject to VAT. The basis of VAT calculation is selling price plus SCT. For imported products, VAT is imposed on the dutiable value plus import duties plus SCT.

SCT refunds are available for exported goods upon request of taxpayers in certain cases, such as goods temporarily imported for re-export. In case items subject to SCT are produced from materials for which the SCT was already paid, the SCT already paid will be deducted.

e. Foreign Contractor Tax

Foreign businesses are considered foreign contractors if they conduct business or earn income in the country under contract with local organizations and individuals. Usually, foreign contractors are the winners of auctions/bid offerings organized by the Vietnamese government or organizations and may be principal contractors, general contractors, partnership contractors or subcontractors.

Foreign contractors in Vietnam are liable to pay the same tax rates applicable to local companies, including import-export duties, personal income tax and other taxes required by authorities.

The calculation of corporate income tax (CIT) and value-added tax (VAT) for foreign contractors can be done via the deduction and declaration method if the foreign contractor:

- Has a permanent establishment or resident status in Vietnam;
- Conducts business in Vietnam under a contractor or sub-contractor contract for a duration of 183 days or more from the effective date of the contract; and
- Applies the Vietnamese Accounting System.

Otherwise, a rate fixing method should be used.

f. Customs Duties

Most goods exported or imported across the borders of Vietnam, or which pass between the domestic market and a non-tariff zone are subject to export or import duties. Exceptions to this include goods in transit, goods exported abroad from a non-tariff zone, goods which are imported from abroad into a non-tariff zone and only used within that non-tariff zone, and goods passing from one non-tariff zone to another.

The payable import tax or export tax amount shall be equal to the unit volume of each actually imported or exported goods item inscribed in the customs declarations multiplied by the tax calculation price and the tax rate of each item stated in the tariff at the time of tax calculation.

Most goods and services being exported are exempt from tax. Export duties (ranging from zero percent - 40 percent and computed on free-on-board (FOB) price) are only charged on a few items, mainly natural resources such as minerals, forest products and scrap metal.

Consumer goods, especially luxury goods, are subject to high import duties, while machinery, equipment, materials and supplies needed for production, especially those items which are not produced domestically, enjoy lower rates of import duties, or even a zero percent tax rate. Duty rates for imported goods shall include preferential rates, special preferential rates and standard rates depending on the origin of the goods.

Import and export duties declaration are required upon registration of customs declarations with the customs offices.

Export duties must be paid within 30 days of registration of customs declarations. For imported goods, import duties must be paid before receipt of consumer goods, specifically:

- Within 275 days for imported supplies and raw materials intended for the production of exported goods; and
- Within 15 days for goods temporarily imported and intended for re-export, as from the deadline for temporary import for re-export or temporary export for re-import, as provided for by competent state agencies.

Most goods and services being exported are exempt from tax. Export duties (ranging from 0 percent - 45 percent and computed on free-on-board (FOB) price) are only charged on a few items.

Vietnam Applies "Single Door" Mechanism to Customs Process

March 17, 2014

Vietnam Briefing News

Please ***click here***

A Tax Case Study

Dezan Shira & Associates' skilled tax and accounting department has helped countless companies and individuals navigate their way through Vietnam's complex tax system. Not only have many of the companies we have worked with been worry free, many have also saved significant amounts of money and have been awarded sizable refunds from the government.

What follows below is a brief case study concerning one of our recent clients.

Company A was a European company that had just been established in order to produce synthetic leather. As such, it was looking to expand to Vietnam after learning that the country was a key location for the making of leather products. Company A realized that it needed professional help dealing with Vietnam's complex tax environment.

Therefore, Dezan Shira & Associates was happy to provide the following Tax Compliance services:

- Preparation and submission of annual business license tax returns;
- Preparation and submission of monthly VAT returns;
- Preparation and submission of Quarterly Corporate Income Tax (CIT) returns;
- Preparation and submission of CIT finalization at the end of the year;
- Provide advice on how and when to transfer tax to the relevant state authorities; and
- Provide immediate assistance either by phone or email for all taxation issues.

Asides from providing hassle free tax and accounting services to Company A, we were able to find a number of relevant tax incentives. Since Company A was located in an area with difficult socio-economic circumstances it was eligible for a reduction in its corporate income tax. Furthermore, since Company A was designated as a "labor intensive enterprise" it was able to receive a 30 percent reduction of its enterprise income tax in 2012. Furthermore, Vietnam had a Double Taxation Agreement with the country where the headquarters of Company A was located; this meant that we were able to further increase their tax efficiency. Finally, due to our careful tax filing, Company A was eligible to receive a sizable tax refund from the government at the end of the fiscal year.

What are some of the key compliance requirements?

There are a number of legally mandated requirements with which FIEs in Vietnam must comply, failure of which will jeopardize the ability of the FIE to continue operating in Vietnam. These procedures and requirements may be different from what the FIEs are accustomed to in their home countries. Investors should therefore be sure to familiarize themselves with these requirements as well as to seek professional advice.

In this section, we discuss:

a. Accounting and bookkeeping
b. Annual compliance

a. Accounting and Bookkeeping

Local and foreign-invested companies doing business in the country are required by law to comply with Vietnam Accounting Standards (VAS) when recording their financial transactions.

Foreign companies may choose to manage two accounting records: one based on the VAS and another compiled specifically for the overseas head office. In practice, many foreign companies maintain an accounting system according to VAS and only convert financial statements into the International Financial Reporting Standards (IFRS) on a quarterly basis for the foreign parent company's reference.

In a nutshell, the VAS requires that accounting records:

- Are in the Vietnamese language;
- Use VND as the accounting currency;
- Comply with the Vietnam chart of accounts;
- Include numerous reports specified by VAS regulations, printed on a monthly basis and signed by the General Director and affixed with the company seal.

Foreign companies wanting to use another currency for their financial records need to submit an application to the local managing tax office. This accounting currency unit must be one that is mainly used for the foreign company's banking transactions, services and selling price quotations. The same foreign currency can also be used to account for revenues, employee salaries and payment of material costs.

"Fulfilling Vietnam Accounting Standards (VAS) requirements is a challenging task, especially for foreign small and medium-sized enterprises working with limited resources."

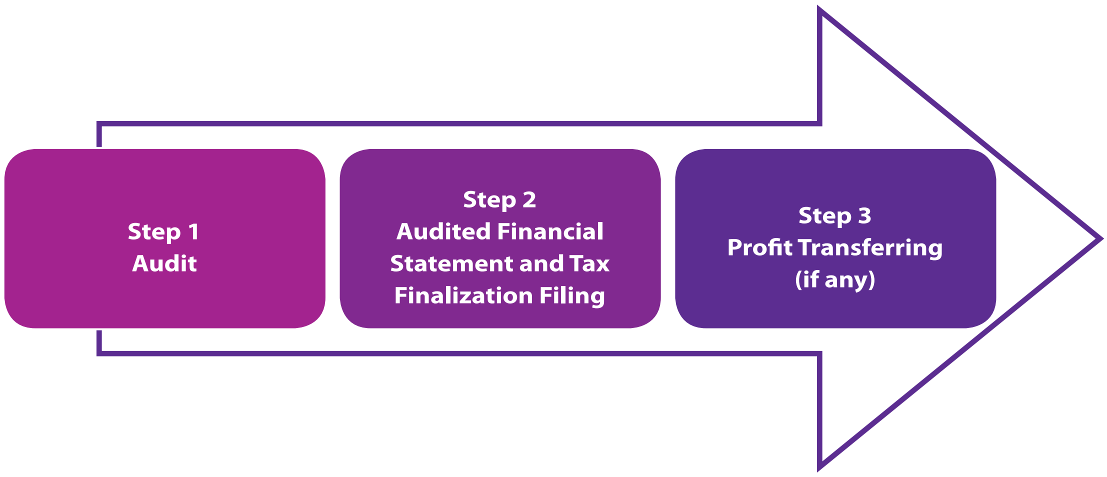
Nguyen Thi Thanh Thao
Senior Associate
Corporate Accounting Services
Dezan Shira & Associates, Hanoi Office

An accounting period in Vietnam is generally determined according to the calendar year, i.e. January 1 to December 31. However, 12 month periods beginning the first day of each quarter, e.g. April 1 to March 31 of the following year; July 1 to June 30 of the following year; or October 1 to September 30 of the following year, can also be adopted after registering with the Tax Department.

Companies are advised to double check their accounting system, taking care to spot possible VAS non-compliance issues. There have been recent reports that some provincial tax authorities cite VAS non-compliance as a basis for collecting additional tax and recovering paid VAT refunds. In addition, tax authorities can penalize companies for VAS non-compliance through the disallowance of input VAT credits and withdrawal of CIT incentives.

b. Annual Compliance

Prior to transferring profits, foreign companies must fulfill certain annual compliance requirements, involving a statutory audit, audited financial statements and tax finalization filings. These procedures are not only required by law, but are also a good opportunity to conduct an internal financial health check.



All foreign-invested entities are required to have their annual financial statements audited by an independent auditing firm. Statutory audits in Vietnam are performed in accordance with the Vietnam Standards on Auditing.

Audited financial statements and tax finalization filing must be done within 90 days from the end of each financial year. After fulfilling these obligations and giving notice to local managing tax offices at least seven working days in advance, foreign investors may remit profits abroad.

Annual compliance for ROs is different from that for other foreign-invested entities. An RO is required to report on its activities to a local department of trade prior to the last working day of January of the following year.

A taxpayer who pays tax later than the deadline is to pay the outstanding tax amount plus a fine equal to 0.07 percent of the tax amount for each day the payment is late. Taxpayers that make incorrect declarations, thereby reducing taxes payable or increasing refundable tax amounts are to pay the full amount of the under-declared tax or return the excess refund, and will also pay a fine equal to 20 percent of the under-declared or excess refunded tax amounts together with a fine for late payment of the tax. A taxpayer that commits acts of tax evasion or tax fraud is liable to pay the full amount of tax and a fine between one and three times the evaded tax amount.

Tax Declaration and Finalization Timeline for a Fiscal Year (F/Y)*

For taxes paid when a liability arises, the deadline is the 10th day from the date the liability arises.

Human Resources and Payroll

- How do I hire staff/workers?
- What major legal obligations does a company have for its staff/ workers?

An Introduction to HR and Payroll in Vietnam

After setting up your business in Vietnam, the next big hurdle is actually **hiring the staff** that you will need to help grow your business. Hiring, and the associated legal obligations that go along with it, can be a confusing process. It is recommended that businesses take a careful look at all relevant regulation and engage a professional services firm where appropriate to ensure proper compliance with all laws.

Vietnam is an attractive place for businesses of all types. The country has a growing **consumer class** and a young and dynamic workforce that is building its skills set. In fact, Vietnam's labor force is growing by more than one million people per year.

There are a number of important HR trends occurring in Vietnam. While labor costs are still low (50 percent that of China), wages are steadily increasing. Over the past five years, this increase in salaries has come without a **corresponding increase in productivity**. Compounding the costs of employing staff in Vietnam are the comparatively high social insurance contribution and income tax rates.

Due to the developing nature of the workforce in Vietnam, it is natural that there exists some difficulty in finding highly skilled employees. Skills and talent shortages are particularly acute in industries such as high tech and banking. However, many international companies, in partnership with the Vietnamese government, are sponsoring training programs to ensure that there are a growing number of highly skilled employees to choose from. Some companies, such as ANZ, are looking to attract Vietnamese expatriates back to the country since they tend to have a higher skill set.

The country has a young and growing workforce with new demands and high expectations for their futures. As the workforce continues to grow there is a resulting rise in competition in the job market. There tends to be a high turnover rate at companies as employees are often shopping their skills around to potential employers. Higher salaries elsewhere are certainly an attraction, but money may not be the only factor in what makes employees stay longer at a company – those that find ways to build employee loyalty will be particularly successful.

Companies may find it difficult to transfer employees (especially women) to different cities or areas because of their strong local connections. This has the potential to put a drag on a company's expansion plans as it may struggle to relocate experienced employees. Thus, finding the right partner to aid in the recruitment process is crucial.

Many companies rely primarily on outsourced providers when it comes to HR, particularly for advice related to recruitment, training and payroll. In fact, many multinationals report that they would like to outsource more of their operational HR practices to a regional shared services function.

Dezan Shira & Associates provides payroll processing and HR administration services for clients with employees based across a number of countries in Asia. Outsourcing of payroll processing ensures an efficient, accurate, reliable and continuous service and improves confidentiality of salary information within the company. By handing the responsibility and liability for this time-consuming processing work over to us, our clients streamline their internal HR departments to concentrate resources into the core HR roles – setting strategy, hiring excellent employees, monitoring employee performance and ensuring good communication between management and staff.

Our payroll and human resource services include:

- Monthly Payroll Calculation and Processing
- Labor Contract Drafting & Disputes
- Social Welfare and Housing Fund Calculation and Processing
- Social Welfare De-registration for expat
- Staff Manual
- Visa Services
- Training Course for Financial Team
- Technical Interview of Financial Team

"Outsourcing of payroll processing ensures an efficient, accurate, reliable and continuous service and improves confidentiality of salary information within the company."

Adam Livermore
Partner and Regional Manager
Human Resources & International Payroll Services

How do I hire staff/workers?

Foreign companies wanting to do business in Vietnam must ensure they follow the provisions of the Labor Code, which contains the legal framework for the rights and obligations of employers and employees with respect to working hours, labor agreements, social insurance, overtime, strikes, and termination of employment contracts, to name a few.

Here we discuss:

a. Foreign employees
b. Contracts
c. Compensation

a. Foreign Employees

An employer is permitted to recruit foreign workers in order to work as managers, executive directors, experts, and technicians where local hires are not yet able to meet production and business requirements.

In order to enter Vietnam, in most cases a foreigner needs a visa issued by a Vietnamese Embassy or Consulate. A Vietnamese visa can be granted in a third-party country or in Vietnam. Citizens of Asian Pacific countries receive a free entry visa to Vietnam that lasts between 14 and 30 days.

To work in Vietnam and remain for an extended period, foreigners need to apply for a longer term visa and, upon arriving in Vietnam, a work permit. Currently, work permits for foreigners are valid for a maximum of two years. Certain foreigners are exempt from work permits, including those mentioned in Article 172 of Vietnam's Labor Code, these include: contributing members, or owners of limited liability companies; members of the Board of Directors of a Joint Stock Company; Heads of Representative Offices, projects of international organizations, and non-governmental organizations in Vietnam; and those coming to Vietnam for a period of less than three months. Also included are internal transferees working for companies operating in sectors listed in the WTO commitments.

Foreigners who reside in Vietnam for one or more years can be granted a Temporary Residential Card (TRC), issued by the immigration agency under the Ministry of Public Security and which is valid from one to three years. People granted a TRC can enter and exit Vietnam without a visa within the valid terms of their TRC.

In an effort to support the hiring of Vietnamese nationals, 30 days prior to recruiting

"In addition to the basics of hiring contracts and monetary compensation, there are specific laws governing the levying of taxes and the paying of social security for the employee"

Le Thi Nhung
Associate, Business Advisory Services
Dezan Shira & Associates, Vietnam

a foreign employee, a company must determine the demand for foreign workers for every working position which Vietnamese are unable to hold, and send reports thereon to chairpersons of provincial-level People's Committees where the head offices of the employers are located.

Annually, employers (except contractors) are required to report their use of foreign labor to the chairpersons of provincial-level People's Committees. In the course of implementation, employers shall report any change, when arising, in their demand for foreign workers to the chairpersons of the provincial-level People's Committees.

Annually, employers (except contractors) are required to report their use of foreign labor to the chairpersons of provincial-level People's Committees.

b. Contracts

Previously, foreign enterprises were required to recruit Vietnamese employees via a local employment service agency, but now companies can hire staff directly and are simply required to provide a list of hired employees to local labor authorities.

There are three types of labor contracts under Vietnamese law depending on the term:

- Indefinite term – a contract in which two parties do not determine the term and the time for its termination;
- Definite term – two parties determine the term as a period of 12 months to 36 months and the time for its termination; and
- Specific/seasonal term – a contract for a job position with a term of less than 12 months.

If an employee continues working after the expiration of his or her definite term or specific/seasonal labor contract, said contract must be renewed within 30 days after the expiry date or it will become an indefinite term labor contract. Moreover, after two definite contracts with an employee, in order to renew the contract, an indefinite term labor contract must be signed.
A labor contract must contain provisions such as scope of work, working hours, rest breaks, wages, job location, term of contract, occupational safety and hygiene conditions and social insurance.

Both employer and employee can unilaterally terminate a contract. A 45 day notice is required for indefinite term contracts, 30 day notice for definite term contracts and three day notice for seasonal contracts. In some cases, the employer will be required to discuss the termination with the executive committee of the trade union.

Companies which employ ten or more people must have a copy of company rules or internal labor regulations registered with the provincial labor department.

Company working rules include contents such as working and rest hours, rules and orders in the company, labor safety, hygiene in the workplace, protection of assets, business and technology confidentiality, and sanction methods to name a few.

c. Compensation

In Vietnam, there are two kinds of minimum wages. The first type is the common minimum wage (VND1,150,000 or US$55) which is used to calculate salaries for employees in state-owned organizations and enterprises, as well as to calculate the social contribution for all enterprises (i.e. the maximum social contribution is 20 times the common minimum wage). The second type of minimum wage is used for employees in all non-state enterprises based on zones as defined by the government.

Minimum Wage by Zone

Minimum Monthly Wage	Zone
VND 2,700,000 (~US$129)	Zone I
VND2,400,000 (~US$114)	Zone II
VND2,100,000 (~US$100)	Zone III
VND 1,900,000 (~US$90)	Zone IV

The above minimum wage rates only apply to Vietnamese employees doing the most basic work under normal working conditions. For those who have passed vocational training courses, including company training, wages are at least seven percent higher than minimum wage rates.

Employees who work extra hours will be paid for those hours based on their current wages as follows: regular working days - 150 percent; weekends - 200 percent; and holidays and paid leave days - 300 percent.

Vietnam Issues New Work Permit Regulations for Foreign Emplyees
March 10, 2014
Vietnam Briefing News
Please ***click here***

What major legal obligations does a company have for its staff/workers?

In addition to the basics of hiring contracts and monetary compensation, there are specific laws governing the levying of taxes and the paying of social security for the employee. The employer must be aware of these and be prepared to accommodate deductions made to the employee paychecks.

Here we discuss:

a. Withholding and paying individual income tax
b. Contributing to social insurance funds

a. Withholding and Paying Individual Income Tax

In general, a typical monthly salary package will include gross salary and mandatory social insurance. Personal income tax (PIT) will be levied on the balance after deducting mandatory social insurance contributions.

PIT is levied on the worldwide income of Vietnam residents and on Vietnam-sourced income of non-residents, irrespective of where the income is paid. The tax calculation and finalization procedure for Vietnamese locals and expatriates is the same, but the procedure is different between residents and non-residents.

FIEs conduct PIT finalization on behalf of their employees at the beginning of the year for taxable incomes arising from the previous year. If an employee has more than one source of income and wishes to conduct tax finalization on his/her own, FIEs can issue that employee a certificate of deduction. If an expatriate's labor contract in Vietnam expires before the end of a calendar year, he/she should conduct tax finalization before his/her departure.

An individual staying in Vietnam for an aggregate of 183 days or more within one calendar year or a consecutive 12 month period from the first day of arrival, or a Permanent Resident that has been registered pursuant to the Law on Residency or having a lease contract with a term of 90 days or more within a tax assessment year, will be treated as a tax resident in Vietnam. Tax residents are subject to PIT on employment income at progressive rates from five percent to 35 percent.

Monthly Taxable Income Rates			
Tax Bracket	Monthly taxable Income (million VND)	Monthly taxable Income (US$)	Tax Rate
1	Up to 5	Up to 238	5%
2	Over 5 to 10	Over 238 to 476	10%
3	Over 10 to 18	Over 476 to 857	15%
4	Over 18 to 32	Over 857 to 1,524	20%
5	Over 32 to 52	Over 1,524 to 2,476	25%
6	Over 52 to 80	Over 2,476 to 3,810	30%
7	Over 80	Over 3,810	35%

Exchange rate: 1 US$ = 21,000 VND

Other Income Rates by Residency		
Income	Rate	
	Residents	Non-residents
Capital investment (dividends, interest)	5%	5%
Franchise/ royalties	5%	5%
Winnings or prizes	10%	10%
Inheritances or gifts	10%	10%
Sale of securities		
gain	20%	0.1%
sale proceeds	0.1%	0.1%
Sale of real estate		
gain	25%	2%
sale proceeds	2%	2%

An individual is a non-resident if he/she does not satisfy any of the above conditions, and is subject to PIT at a flat rate of 20 percent. Certain exemptions to PIT exist. For example, entities and individuals exempt from value-added tax, personal income tax and enterprise income tax in 2014 include those providing hostel services for laborers, workers, students, nursery services, or catering services (under certain conditions). Also, individuals earning taxable incomes from salaries, wages and businesses that belong to Level 1 of the partially progressive tariff specified in Article 22 of the Law on Personal Income Tax No. 04/2007/QH12 are exempt from PIT beginning from July 1, 2013 and continuing onwards.

LinkedIn

VIETNAM BRIEFING DISCUSSION GROUP

Discuss income tax rates and other timely topics about doing business in Vietnam.

b. Contributing to Social Insurance Funds

There are three types of mandatory social security in Vietnam: social insurance, health insurance and unemployment insurance.

Mandatory minimum contributions are required of both employer and employee. All domestic and foreign companies operating in Vietnam are required to pay these social insurances for all employees under labor contracts with a definite term of over three months or labor contracts with indefinite terms. While the total minimum employer social security contribution was 21 percent of monthly salary for 2012-2013, this will rise to 22 percent in 2014.

Social and unemployment insurances are compulsory only for Vietnamese staff, while health insurance applies to both Vietnamese and foreign staff employed in accordance with Vietnam's Labor Code. Employers register and pay insurance contributions monthly on behalf of their employees at the provincial Department of Labor, Invalids and Social Affairs (DoLISA). Contribution amounts are based on the employees' monthly salary or wage as stated in the labor contract, and are capped at 20 times the legal standard minimum salary.

Social insurance covers employee benefits including sick leave, maternity leave, allowances for work-related accidents and occupational diseases, pension allowance, and mortality allowance. Health insurance entitles employees to medical examination and inpatient and outpatient treatments at authorized medical establishments. Unemployment insurance, which takes the place of severance pay, is paid out to employees in quantities depending on the period of time for which they and their previous employers contributed. The monthly unemployment allowance is equal to 60 percent of the persons' average salary of the last six months of employment.

There are three types of mandatory social security: Social Insurance, Health Insurance, and Unemployment Insurance.

Social Security Minimum Contributions Employer and Employee

Year	Social insurance		Health insurance		Unemployment insurance		Total compulsory contribution		
	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Both
2012-2013	17%	7%	3%	1.5%	1%	1%	21%	9.5%	30.5%
From 2014	18%	8%	3%	1.5%	1%	1%	22%	10.5%	32.5%

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