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From Dezan Shira & Associates



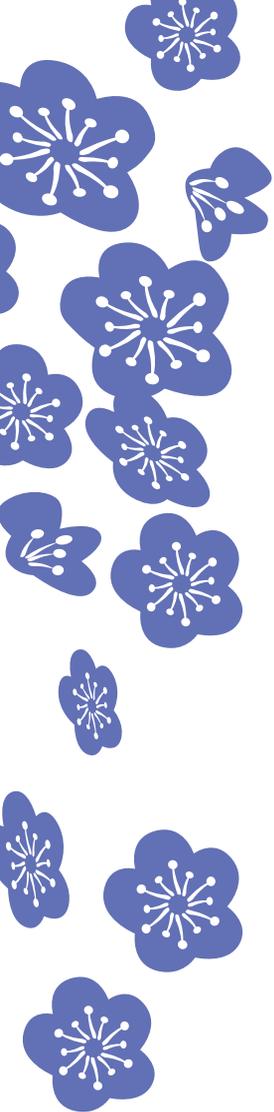
Vietnam: A Guide to HR in Asia's Next Growth Market

p.4 Company Considerations

p.8 Employee Considerations

p.11 The Benefits of Outsourcing Payroll Processing

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Introduction



Dear Clients and Readers,

As more and more foreign companies look to Vietnam as Asia's next growth market and key sourcing destination, finding the right employees has taken on an added importance. While the labor pool is growing fast, there is intense competition to attract top candidates for positions in Vietnam.

In this issue of Vietnam Briefing Magazine, we provide you with a clear understanding of the current human resources (HR) and payroll situation in Vietnam. The country is seeing strong economic growth and is experiencing the benefits of its demographic dividend. As such, Vietnam is increasingly seen as the place to be in Asia for foreign businesses and investors.

In this fast changing environment, it is crucial to have a clear understanding of the legal obligations that companies have to their employees and what trends are affecting the HR and payroll landscape.

With more than 20 years of experience in the region, Dezan Shira & Associates (along with members of the Dezan Shira Asian Alliance) are pleased to assist businesses and investors in exploring options for establishing or expanding their HR & Payroll presence in Asia. For additional business intelligence and regular updates on regulatory, legal, and tax developments related to HR & Payroll in Asia, please log on to our region and country-specific websites.

Kind regards,

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Festival Day
Nguyen Thanh Binh
Oil on canvas, 80 x 95 cm
Green Palm Gallery
info@greenpalmgallery.com | www.greenpalmgallery.com | +84 91 321 8496

This Month's Cover Art

Vietnam: A Guide to HR in Asia's Next Growth Market

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Company Considerations

– By Edward Barbour-Lacey and Hoang Thu Huyen, Dezan Shira and Associates

HR Trends in Vietnam

Once a company has gone through all the legal procedures required for the establishment of their business in Vietnam, the next big hurdle is the process of actually hiring the staff that will be needed and dealing with the associated payroll obligations. Hiring, and the associated legal obligations that go along with it, can be a confusing process. It is therefore strongly recommended that businesses take a careful look at all relevant regulation and engage a **professional** where appropriate to ensure proper compliance with all laws.

In recent years, Vietnam has become an increasingly attractive place for businesses of all types. The country has a fast growing consumer class and a young and dynamic workforce that is continuing to build its skills set. In fact, Vietnam's labor force is growing by more than one million people per year. Currently, the hottest hiring areas are sales, IT & software, and marketing.

There are a number of important HR trends occurring in Vietnam. While labor costs are still low (50 percent that of China and 40 percent of those reported in Thailand and the Philippines), 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 country's comparatively high social 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 **technology** 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. Additionally, 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's young and growing workforce has new demands and high expectations for their futures. Vietnam is just now coming into the full benefits of its demographic dividend – where the country will see a massive influx of young people into the workforce over the next few years. To understand what the next few years will bring to Vietnam, it is instructive to look at China, which previously went through its own demographic dividend and saw explosive economic growth.

Key Information

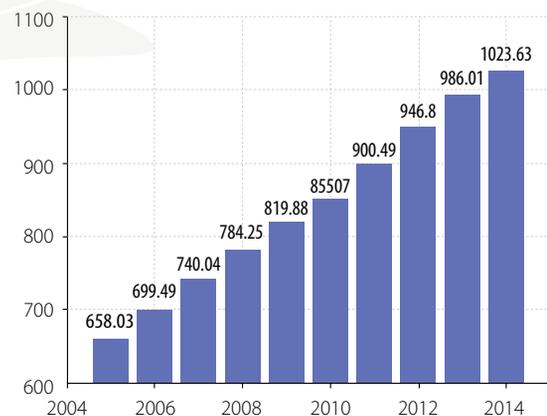
Average Annual Growth Rate of Labour Force, ASEAN Member Countries (%)

Country	2010-2014	2015-2020
Brunei Darussalam	1.88	1.46
Cambodia	2.03	1.67
Indonesia	1.48	1.24
Lao PDR	2.48	1.97
Malaysia	2.01	1.85
Myanmar	1.38	0.97
Philippines	2.46	2.31
Singapore	1.44	0.91
Thailand	0.83	0.48
Vietnam	1.56	0.86

Source: Compound average annual growth rates are estimated from ILO, *Economically Active Population. Estimates and Projections (6th edition October 2011)*

Vietnam GDP per Capita

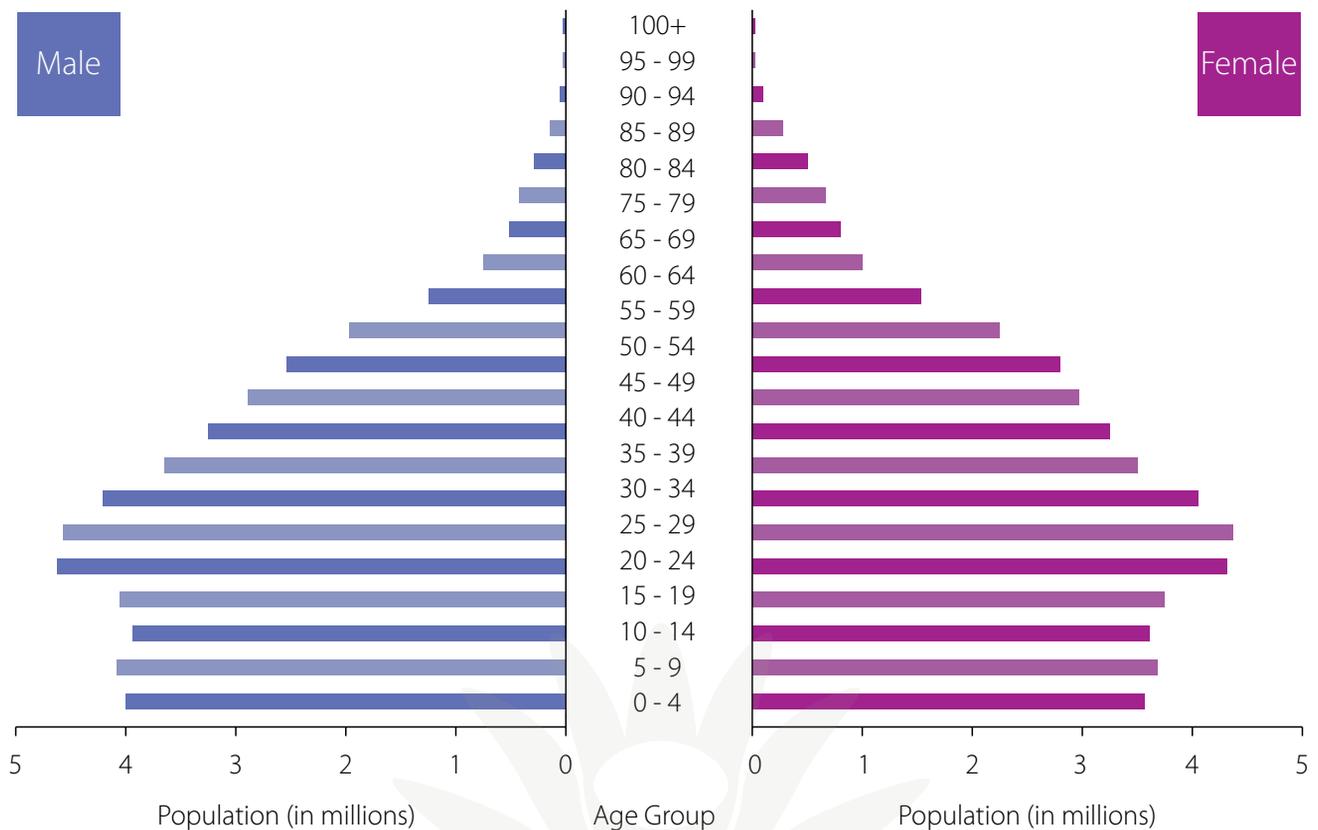
GDP per Capita in US Dollars at Constant Prices Since 2000



Source: www.tradingeconomics.com | World Bank

As the country's workforce continues to grow there has been a resulting rise in competition within the job market. This has increased the rates of turnover at many companies as employees are often shopping their skills around to other potential employers. It is not unusual to see applicants who have worked at a multitude of companies over a short span of time.

Vietnam in 2014



While businesses in Vietnam have come to accept high turnover as a cost of doing business in the country, there is still a strong push to find ways to increase the amount of time that an employee is willing to spend at a company. Providing higher salaries is certainly an attraction, but money may not be the only factor in what makes Vietnamese employees stay longer at a company. Those businesses that find ways to build employee loyalty will therefore be particularly successful.

Commonly encountered **problems** when hiring Vietnamese employees include a lack of English skills and a lack of technical skills. Many Vietnamese have a basic level of English but do not have the fluency required to conduct business in the language. While the government is pushing English education throughout the school system, the full effect of this will not be felt for some time. One strategy for foreign businesses is to provide English lessons for their employees as part of a wider skills training program. Additionally, the government, often in conjunction with foreign tech companies

as mentioned earlier, is seeking to boost the technical skills of the country's workforce. These programs are already starting to bear fruit as can be seen from the sizable investments that companies, such as Samsung and Intel, have made into Vietnam.

Additionally, 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.

Due to the complexities of the labor market, many companies in Vietnam 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.

For more information on wages and employment in Vietnam, please email vietnam@dezshira.com 

How to Hire and Pay Staff in Vietnam

The number of foreign workers coming to Vietnam has steadily increased in recent years, surging to over 77,000 at the end of 2013. The vast majority of these workers are employees of foreign contractors, working for, or establishing, FDI projects. A Vietnamese entity is permitted to recruit foreigners to work as managers, executive directors, experts, and skilled labor where local candidates are not yet able to meet production and business requirements. It is important to note that unlike in some other Asian countries, such as China, Vietnamese representative offices are able to hire staff directly.

Annually, employers (except for contractors) determine the demand for foreign workers for every position in which no competent Vietnamese workers can be found; they then send a report to the President of the People's Committee of the province or central-affiliated city where the head office of the employee is situated. During the process, any change in the labor demand for foreign workers should be reported to the President of the People's Committee of the province. The President will issue written approval to the employer for the employment of foreign workers for each position.

The company is required to get approval for the employment of foreign workers in each position before official recruitment. The approval occurs 30~40 days from the date of application by the President of the People's Committee of the province and is included in the application dossiers of the work permit, which should be submitted no later than 15 working days before the foreigner is to begin work in Vietnam.

Due to the many difficulties involved, it is common for foreign companies to choose to outsource the process of finding suitable candidates for employment. As a result of this trend, there are a growing number of recruitment firms specializing in the Vietnam labor market.

Wages

Wages vary depending upon the location of employment and the type of skills and experience needed to complete the assignment.

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. Currently, Vietnam divides its minimum wage in to four different zones.

The country's minimum wage 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.

Overtime

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.

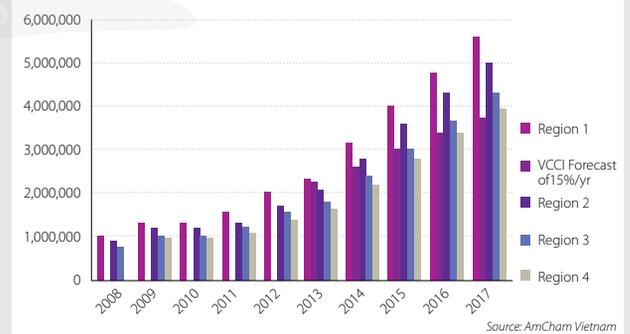
Key Information

Recruiters	Website
Robert Walters	www.robertwalters.com.vn
Navigos Search	www.navigosgroup.com
Talent Recruitment JSC	www.hr2b.com
Manpower	candidate.manpower.com/wps/portal/VNCampus
Job Street	www.jobstreet.com
CareerBuilder	careerbuilder.vn

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

Vietnam's Private Sector Minimum Wage 2008-2017e (VND/month)



Vietnam Comparison: Hiring an Accountant

Location	Vietnam		Shanghai		Suzhou	
	Junior	2 yrs	Junior	2 yrs	Junior	2 yrs
Monthly Wage (USD)	214	381	653	1,062	585	930
Social Security by employer (USD)	47	84	246	322	187	296
Total Cost	261	465	899	1384	775	1,227

Social Security

One of the key obligations that an employer has in Vietnam is the payment of **social security**. There are three types of mandatory social security: social insurance, medical insurance, and unemployment insurance.

Mandatory minimum contributions are required of both the employer and employee. All domestic and foreign companies operating in Vietnam are required to make social insurance payments for all employees under labor contracts with a definite term of over three months or labor contracts with indefinite terms.

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. Contribution amounts are based on the employee's monthly salary or wage as stated in the labor contract, and are capped at 20 times the legal standard minimum salary.

Social insurance in Vietnam covers compensation for salary lost due to illness, maternity, working accidents, occupational disease, retirement and death. Health insurance entitles employees to medical examination and inpatient and outpatient treatment 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 made contributions.

The mandatory employer contribution to the State Social Insurance Fund is typically 18 percent of gross employee income, and the mandatory employee contribution is typically eight percent of gross income (applied from January, 2014). For employees working under an employment contract that is less than three months in duration, the social insurance contribution amount should be included in their salary, and the employees will be responsible for paying their own social 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%



Alberto Vettoretti
Managing Partner, Vietnam
Dezan Shira & Associates

“In Vietnam, the declaration and payment of Personal Income Tax (PIT) is carried out on a withholding basis. Employers are required to collect taxes on employee income for both foreign and local Vietnamese employees, and ensure the timely submission of their employees' tax declarations. Employers must withhold the required percentage of their employees' personal income, and deposit the monthly amount with the State Treasury.

Social insurance in Vietnam covers compensation for salary lost due to illness, maternity, working accidents, occupational disease, retirement and death. As of 2014, the total minimum employer social security contribution is 22 percent of the employee's monthly salary.”

For more information on wages and employment in Vietnam, please email vietnam@dezshira.com 

Employee Considerations

– By Edward Barbour-Lacey and Rao Nguyen, Dezan Shira and Associates

Navigating Personal Income Tax

According to the *Personal Income Tax (PIT) Law*, resident taxpayers are subject to PIT on their global employment income, irrespective of where the income is paid or earned, at progressive rates from five percent to a maximum of 35 percent. Employment income includes salaries, wages, allowances and subsidies, remuneration in all forms; benefits earned for participation in business associations, boards of directors, control boards, management boards and other organizations; and premiums and bonuses in any form except those received from the State. The tax calculation and finalization procedure for Vietnamese locals and expatriates is the same; however, the procedure for residents and non-residents is different.

In general, a typical monthly **salary package** will include gross salary and mandatory social insurance. PIT will be levied on the balance after deducting mandatory social insurance contributions. Companies conduct PIT finalization on behalf of their employees at the beginning of the year for taxable income arising from the previous year.

Are you a tax resident?

A resident is an individual satisfying one of the following conditions:

- Is staying in Vietnam for an aggregate of 183 days or more within one calendar year or a consecutive 12-month period from the first date of arrival; or
- Has a permanent residence that has been registered pursuant to the *Law on Residence*; or
- Has a leased residence to stay in Vietnam where the lease contract has a term of 90 days or more within the tax assessment year. Leased residences include hotels, boarding houses, rest houses, lodgings and working offices.

Foreign individuals can be exempted from taxation for certain benefits, such as:

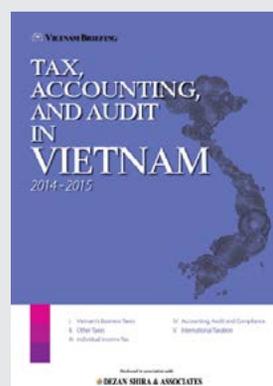
- One-off relocation allowance for foreigners to relocate to Vietnam (based on the amount stipulated in the labor contract or agreement between the employer and the employee);
- Round-trip air fare paid once a year by employers for their foreign employees who are on annual leave (the air ticket should indicate the country where these employees are nationals or where the foreigner's family lives); and
- General education school fees or tuition paid by the employer for the expatriates' children studying in Vietnam (based on the invoice from the school and the labor contract).

Key Information

Tax Bracket	Monthly Taxable Income (million VND)	Monthly Taxable Income (USD)	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

Taxable 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:		
On the gain	20%	0.1%
On the sale proceeds	0.1%	0.1%
Sale of real estate:		
On the gain	25%	2%
On the sale proceeds	2%	2%



Related Reading

The first edition of *Tax, Accounting, and Audit in Vietnam*, published in 2014, offers a comprehensive overview of the major taxes foreign investors are likely to encounter when establishing or operating a business in Vietnam, as well as other tax-relevant obligations.

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Individual Income Tax Rates Across Asia					
Estimated Yearly Taxable Income (TI) in USD (for comparison only)	China	Hong Kong	India	Singapore	Vietnam
3,000 or less	3%	2%	0%	0%	5%
3,001-6,000	10%	2-7%	10%	0%	10%
6,001-8,000	10%	7%	10%	0%	15%
8,001-10,000	10-20%	7%	20%	0%	15%
10,001-15,000	20%	12%	20%	0%	20%
15,001-18,000	20%	17%	20 - 30%	0 - 2%	20%
18,001-20,000	25%	17%	30%	2%	25%
20,001-30,000	25%	17%	30%	2 - 3.5%	25%
30,001-45,000	25%	17%	30%	3.5 - 7%	30%
45,001-60,000	25%	17%	30%	7%	35%
60,001-100,000	30-35%	17%	30%	7 - 15%	35%
100,001-150,000	30-35%	17%	30%	15 - 17%	35%
150,001 or more	35-45%	17%	30%	17 - 20%	35%

Visas, Work Permits, and Temporary Residence Cards

Once the company has decided on hiring a specific foreign employee, the next step is to determine whether the new employee will need a visa, work permit, or temporary residence card. It is crucial that companies have a clear understanding of the legal procedures and frameworks involved with each of these options. Below, we discuss in greater detail the various documents necessary for a foreign worker in Vietnam.

Visas

In order to enter Vietnam, most foreigners need a **visa** issued by the Vietnamese Embassy or Consulate (some select countries can enjoy visa-free entry; check with your local consulate on the issues affecting residents of your home country). A Vietnamese visa can also be granted in a third-party country or from within Vietnam. However, to work in Vietnam and remain for an extended period, foreigners must apply for a longer term three-month multiple entry visa. Relevant types of work visas typically include:

- B2 - For execution of investment projects already licensed by Vietnamese state agencies
- B3 - For work with Vietnamese enterprises
- B4 - For work at representative offices or branches of economic, cultural, or other professional organizations of foreign countries, or work with Vietnam-based non-governmental organizations



Work Permits

In most cases, a **work permit** is required when working in Vietnam for more than three months. Where a work permit is not compulsory, a notice must be submitted seven days in advance to the provincial Department of Labor, Invalids and Social Affairs prior to working in Vietnam. Currently, work permits for foreigners are valid for a maximum of two years.

Authorities are becoming stricter regarding work permits. Those who violate the regulations by working in Vietnam without a work permit may be penalized or, if unable to meet work permit requirements, deported back to their home countries.



Temporary Residence Cards

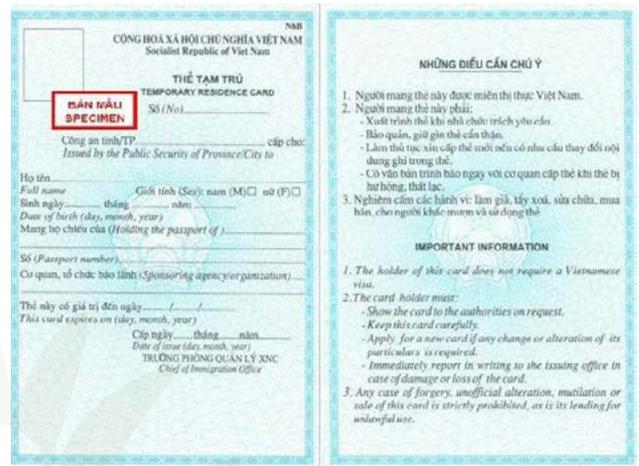
Foreigners who hold work permits valid for one year or more, as well as senior management, can be granted a Temporary Residence Card (TRC). A TRC is issued by the immigration agency under the Ministry of Public Security, and will be valid from one to three years. People granted a TRC can enter and exit Vietnam without a visa within the valid terms of their card. Holders of a B2, B3, or B4 visa are eligible for a TRC, as well as members of management boards, members of councils and boards of directors, heads of company branches and Chief Representatives of representative offices of foreign enterprises in Vietnam.

In order to be eligible for a work permit, the applicant must fulfill the following requirements:

- Be a manager, executive director, expert or skilled labor with technical skills and knowledge necessary for the job
- Be at least 18 years of age
- Not currently subject to criminal prosecution or any criminal sentence in Vietnam or overseas, nor have a criminal record
- In good enough health to satisfy job requirements

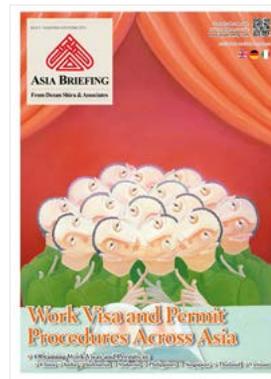
Certain situations exempt a foreigner from needing a work permit, these include the following:

- Contributing member or owner of an LLC
- Member of the Board of Directors of a Joint Stock Company
- Head of Representative Office, project of international organization, or non-governmental organization in Vietnam
- Coming to Vietnam for less than three months in order to offer services
- Coming to Vietnam for less than three months in order to resolve a situation which Vietnamese or foreign experts currently in Vietnam are unable to resolve
- Foreign lawyers licensed to practice law in Vietnam
- Under the provisions of an international agreement in which Vietnam is a member
- Internally transferred within an enterprise which has a commercial presence in the committed service list of Vietnam with the WTO
- Coming to Vietnam to supply consulting services for programs and projects that use Official Development Assistance
- Workers holding master's degrees or higher and providing consultancy services, teaching or conducting scientific research at institutions of higher education or vocational colleges within 30 days
- Foreign workers entering Vietnam to implement international agreements to which central state agencies, local state agencies, and central socio-political organizations are signatories



Individuals or enterprises requiring assistance navigating the various visa and work permit regulations around Asia may contact the experts at Dezan Shira & Associates at asia@dezshira.com.

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Expert Commentary: The Benefits of Outsourcing Payroll Processing

For several years now, multinational companies with operations in one or more Asian countries have begun transitioning to an outsourced model for handling their **payroll and HR administration**. Already in the U.S. and Europe, the accelerating trend towards outsourcing payroll processing is unlikely to reverse due to the huge efficiency and savings it can deliver. In Asia, however, the cost-benefit of outsourcing is significantly less clear-cut. In essence, the transition towards outsourcing in Asia is primarily being driven by three factors:

- a) The increased importance of Asia-based employees to their organization, and the importance of ensuring the handling of their payroll in a professional manner.
- b) The increasing number of Asia-based employees, and increased complexity of their compensation packages.
- c) The increasing virtualization of HR administration, which has allowed work that previously entailed locally-based employees working with government bureaus to be handled from an online location.

In countries like Vietnam, savings are now kicking in due to the virtualization mentioned above, but the main motivation for companies to choose an outsourced model is more related to the ability to achieve a higher level of consistency in data management, greater transparency for management, and improved confidentiality across their Asia-based entities. As companies continue to expand their operations across Asia, not only does their headcount grow, but the number of legal entities they must maintain also increases. Such expansion poses a great challenge to these companies when seeking vendors able to comprehend and efficiently explain local payroll requirements, and produce reports that seamlessly link to their specific accounting platforms.

“One-country” vendors can often do an efficient job, but communicating with several such companies every month can be very time-consuming for HR managers based at HQ. On the other hand, “global” vendors (a managed model) can sometimes struggle to meet all the local statutory requirements and customs in faraway markets that change rules and regulations frequently.

Stepping in to fill this gap are the **“pan-Asia” vendors**, offering shared service or integrated payroll outsourcing models. Their ability to coordinate multiple payrolls across the entire region represents a significant improvement over the traditional “one-country” and “global vendor” model. Indeed, the proliferation of pan-Asia vendors is partially why the transition to the outsourcing model is accelerating.



DEZAN SHIRA & ASSOCIATES



To learn more about Dezan Shira & Associates
Payroll Options in Asia
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