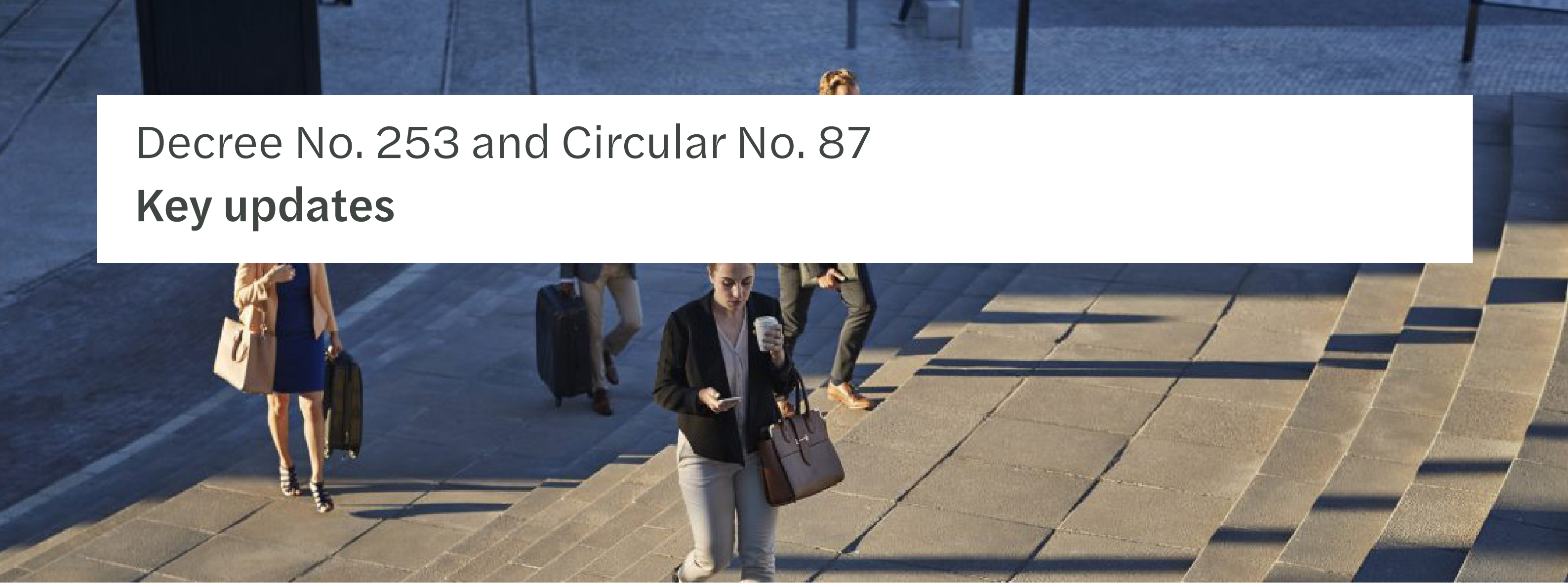
Forvis Mazars in Vietnam Alert

Tax updates

Key Personal Income Tax changes for employers and employees effective from 1 July 2026

Key Personal Income Tax ("PIT") changes for employers and employees effective from 1 July 2026

The Government and the Ministry of Finance have issued Decree No. 253/2026/ND-CP and Circular No. 87/2026/TT-BTC, effective from 1 July 2026. These regulations provide important clarifications on employment income, tax deductions, withholding obligations, and personal income tax ("PIT") finalisation procedures.



Decree No. 253 and Circular No. 87
Key updates

1. Effective date and transitional provisions

- The Decree and Circular take effect on 1 July 2026. However, provisions relating to business income, employment income, and wages of tax residents apply from the 2026 tax year. The increased tax-exempt meal allowance cap of VND 1.2 million per employee per month is effective from 1 July 2026.
- For employment income earned during the period from 1 January 2026 to 30 June 2026, any adjustments arising from the new regulations may be reflected in the 2026 annual PIT finalization without the need to amend previously submitted monthly or quarterly PIT returns.

2. Key considerations for determining tax residency

- The Decree continues to apply the existing principles for determining tax residency status and tax year based on either the calendar year or a continuous 12-month period.
- In determining the number of days present in Vietnam, the tax authorities may consider not only passports or travel documents but also other supporting immigration records relating to an individual's entry into and exit from Vietnam.

3. Conversion of taxable income

- Taxable income received in a foreign currency must be converted into Vietnamese Dong (VND) using the buying exchange rate of a commercial bank or the exchange rate published by the State Bank of Vietnam at the time the income arises. Non-cash income must be valued based on the prevailing market value of the relevant goods or services at the time the income arises.

4. Expansion of tax-exempt employment income

- Cash payment for mid-shift meals or lunch allowances provided by employers are exempt from PIT up to VND 1.2 million per employee per month. Any excess remains subject to PIT.
- The entire amount of income earned from night shifts and overtime work performed at the workplace is exempt from PIT, provided the overtime arrangement meets the requirements of labor legislation.
- Salary or wages paid in respect of unused annual leave entitlements under labour regulations are exempt from PIT.
- Severance allowances and job-loss allowances paid in excess of statutory labor law requirements may still qualify for PIT exemption if clearly stipulated in a company's financial regulations, internal policies, labor contracts, or collective labor agreements.

Decree No. 253 and Circular No. 87
Key updates

5. New deductions and tax incentives

01

Resident individuals may claim a deduction for their own and their dependents' medical examination and treatment expenses incurred at domestic healthcare facilities, up to VND 23 million per year, subject to prescribed conditions and supporting documentation.

02

Resident individuals may claim a deduction for their own and their dependents' education and training expenses incurred at domestic educational institutions, up to VND 24 million per year, provided the relevant conditions are satisfied.

03

Medical and education expense deductions must be claimed through a direct PIT finalization filing with the tax authorities.

04

The deduction limit for certain voluntary pension contributions, supplementary pension insurance, and related insurance products is increased to VND 3 million per person per month.

05

The Decree introduces PIT incentives for certain employment income earned in the fields of science and technology, innovation, high technology, and the digital technology industry.

06

Qualified high-tech professionals and high-quality digital technology industry personnel may be eligible for a five-year PIT exemption on employment income, subject to prescribed criteria and conditions.

07

Income derived from participating in science, technology, and innovation projects may also qualify for PIT incentives where the relevant conditions and documentation requirements are met.

6. Changes to dependent eligibility and management

Children aged 18 years or older who have lost civil act capacity may qualify as dependents for family circumstance relief purposes if the prescribed conditions are met.

Taxpayers must complete dependent registration by 31 December of the relevant tax year to be eligible for family circumstance relief.

For other categories of dependents, family circumstance relief is available only where the dependent lives with the taxpayer and is under the taxpayer's legal support obligation.

The income threshold for dependents is increased to VND 3 million per person per month.

Decree No. 253 and Circular No. 87

Key updates

7. Changes to tax withholding and PIT finalisation obligations

- The threshold for applying the 10% PIT withholding on payments to individuals who do not have labor contracts or whose labor contracts are shorter than three months is increased to VND 5 million per payment.
- Payments made to former employees after termination of employment may still be subject to 10% PIT withholding, where the relevant conditions are met.
- Individuals receiving occasional income that has been subject to 10% withholding tax are not required to re-finalise such income if their average monthly income does not exceed VND 15 million.
- The Decree clarifies PIT withholding, reporting, and payment obligations where a Vietnamese company reimburses salary and wage costs to overseas organisations or individuals. This clarification may affect international assignment, secondment, and cross-border employee cost allocation arrangements.

8. Clarification of the tax treatment of ESOP shares and bonus shares

- The receipt of bonus shares or ESOP shares does not trigger PIT at the time of receipt. PIT implications arise when the individual subsequently transfers the shares.
- Upon transfer, an individual may simultaneously incur PIT liabilities in respect of both employment income and securities transfer income, depending on the nature of the gain.
- Securities companies and custodian banks are responsible for tracking bonus shares and ESOP shares held by each individual and carrying out the required tax withholding obligations in accordance with applicable regulations.

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