VIETNAM

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Energy Overview

Vietnam has a diverse range of energy resources, including coal, natural gas, petroleum, hydropower, and renewable energy. The petroleum industry plays a significant role in the economy, contributing to energy production, industrial growth, and exports. As an important producer of oil and gas, Vietnam has substantial reserves located both onshore and offshore. The state-owned Vietnam Oil and Gas Group (Petrovietnam) is the primary organisation responsible for the exploration, production, and distribution of petroleum resources.

Renewables are a key focus for the future of energy in Vietnam. The country has experienced rapid growth in solar power, becoming one of the leading solar power markets in Southeast Asia. Wind energy, particularly offshore wind, is also gaining attention as part of a strategy to diversify the energy mix in Vietnam and achieve its sustainability goals. Recently, the Vietnamese government issued regulations outlining essential policies for the development of hydrogen energy, aligning with the National Energy Development Strategy and the National Power Development Plan for the period from 2021 to 2030, with a long-term vision to 2050.

To encourage investment in renewable energy, the Vietnamese government offers various incentives.

Tax Overview

The standard rate of corporate income tax (**CIT**) in Vietnam is 20%. Taxpayers who qualify for tax incentives may benefit from a lower CIT rate and tax exemptions and reductions. A Vietnamese resident company is taxed on its worldwide income.

CIT is assessed on net taxable income, calculated as revenue minus deductible expenses. Tax losses can be carried forward to offset profits in the following years, with a maximum carry-forward period of five years. However, carrying back tax losses is not permitted.

The standard VAT rate in Vietnam is 10%. However, some categories of goods and services have rates of 0% (mainly applicable to exports of goods and services) and 5% (generally applicable to essential goods and services) as well as specific exemptions from VAT.

Non-residents earning income from the cross-border supply of goods or services to Vietnamese customers are subject to taxation under the foreign contractor tax (**FCT**) regime also known as the withholding tax regime in Vietnam. FCT is withheld on payments to foreign contractors and consists of two components: VAT and CIT, with rates varying based on the type of products or services provided in Vietnam. **Dividends are not subject to FCT. Interest on loans is subject to 5%, and 10% of CIT applies to royalties.**

Taxation of Energy Projects

Companies involved in energy generation projects are subject to the standard rate of 20% on their net profits.

For activities related to the prospecting, exploration, and production of oil and gas, the applicable CIT rate ranges from 32% to 50%, depending on the specifics of each project. Unique provisions regarding CIT treatment and calculations are applied to determine the taxable income from these activities, which differ from the regular CIT framework.

Additionally, companies exploiting Vietnam's natural resources, including oil and gas, are required to pay a natural resource tax (**NRT**). The NRT rates vary based on the specific resource being extracted, ranging from 1% to 40%. Crude oil and natural gas are taxed at progressive rates based on their average daily production output.

An environmental protection tax is also imposed on the production and importation of goods considered harmful to the environment, including petroleum and coal. The rates for this tax vary according to the types of goods.

Income earned by taxpayers from energy generation projects that do not involve prospecting, exploration, or production of oil and gas is subject to the normal tax regime.

Other Tax Issues To Be Considered

Tax incentives are provided to companies that invest in specific promoted business sectors and/or designated locations in Vietnam. Renewable energy is recognised as a promoted business sector eligible for these tax incentives. These incentives include a preferential CIT rate of 10%, exemptions and reductions in CIT for a specified period, exemptions from import duties on certain goods; and exemptions or reductions on land and water rental fees.

To qualify for tax incentives in Vietnam, an investment project must either be a new project or an expansion of an existing one.

Additionally, the Vietnamese government plans to introduce new incentive policies specifically for the green hydrogen energy sector, which will likely attract more investors to this area.

Relevant Experience

- Assistance provided to a European investment fund relating to the acquisition of two renewable energy projects in Vietnam, including tax due diligence and tax advisory work.
- Advised a leading French energy company on its acquisition of rooftop solar projects and Special Purpose Vehicles (SPVs). This included an analysis of the tax liabilities for both the buyers and sellers resulting from the settlement of onshore debts and share sales, as well as advising on the customs implications and procedures
- Advised a French energy company on structuring options for international holding structures for projects in Vietnam.
- Assistance to a leading Thai-listed energy company's solar projects and other investment projects in Vietnam. This included assistance with VAT refund claims, advising on various tax and customs implications and procedures relating to operational issues of the projects, and providing tax advice on corporate restructuring.
- Advised several solar power developers based in Singapore, Thailand, and the UK on various aspects of solar and wind power projects, highlighting tax and customs implications in Vietnam.
- Advised a leading European energy company in exploring structuring options, including an international holding structure and strategies for tax-efficient cash repatriation.
- Advised a European company that provides ocean data as a service on the Vietnamese tax implications related to offshore wind power projects, including analysis and application of double tax treaty relief.
- Advice on the Vietnamese tax implications concerning the engineering, procurement, and construction activities of several contractors based in China, Singapore, and Germany, specifically for the development of renewable energy projects.
- Advised a leading international energy company on various structuring options and their corresponding tax implications related to its exit from participating interest production-sharing contracts in Vietnam.
- Conducted tax due diligence to assist a prominent energy company in acquiring participating interests in production-sharing contracts in Vietnam and provided tax advisory services on structuring options for its holding structure.
- Delivered market entry tax advice and tax compliance services to a U.S. entity holding participating interests in production-sharing contracts in Vietnam.
- Performed a tax review and provided advice on tax implications for a UK entity regarding its participating interests in production-sharing contracts in Vietnam.

KEY CONTACT

Jack Sheehan

DFDL Vietnam Law Company Limited

jack.sheehan@dfdl.com

+66 620 147 904