

# LEGAL BRIEFING

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## Good News – The Government reduces corporate income tax payable in 2020 for SME?

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### 1. What is new?

On 25 September 2020, the Government issued Decree no. 114/2020/ND-CP (“**Decree no. 114**”) guiding implementation of the National Assembly’s Resolution no. 116/2020/QH14 (“**Resolution no. 116**”) on reduction of corporate income tax (“**CIT**”) payable in 2020. Accordingly, where a company’s total revenue in 2020 is less than or equal to **VND 200 billion**, such enterprise is entitled to a 30% reduction in its CIT payable for the financial year 2020 (“**Financial Year 2020**”).<sup>1</sup>

A company’s total revenue in Financial Year 2020 for the purposes of Decree no. 114 includes proceeds from sales of goods, processing and service provision, subsidies and extra charges to which the company is entitled under the Law on Corporate Income Tax.

For those companies which have operated for less than 12 months in 2020 because they are newly established or recently underwent ownership transfer, conversion, merger, acquisition, division, partial division, dissolution or bankruptcy, the total Financial Year 2020 revenue is calculated as follows:<sup>2</sup>

$$\text{Total revenue in 2020} = \left( \frac{\text{Actual earned revenue in 2020}}{\text{Actual operational months in 2020}} \right) \times 12 \text{ months}$$

### 2. Who is eligible?

Under Decree no. 114, the following CIT payers are eligible for CIT reduction:<sup>3</sup>

- (a) Companies duly established under the laws of Vietnam;
- (b) Entities duly established under the Law on Cooperatives;
- (c) Public service providers duly established under the laws of Vietnam; and
- (d) Other entities duly established under the laws of Vietnam and earning income from business operation.

### 3. How to claim the reduction?

According to Decree no. 114, eligible CIT payers must estimate the total revenue in Financial Year 2020 and, in the event the estimated total revenue does not exceed VND

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<sup>1</sup> Article 2.1 Decree no. 114/2020/ND-CP.

<sup>2</sup> Article 2.2 Decree no. 114/2020/ND-CP.

<sup>3</sup> Article 1 Decree no. 114/2020/ND-CP.

200 billion, the eligible CIT payers may pay 70% of the quarterly payable CIT. At the end of the Financial Year 2020, if the actual total revenue does not exceed VND 200 billion, the eligible CIT payers must declare the CIT reduction when making the annual CIT settlement. In addition, the 30% CIT reduction under Decree no. 114 will only be applied after other CIT incentives granted under the Law on Corporate Income Tax have been deducted from the payable CIT.<sup>4</sup>

Since the Vietnamese economy has been heavily impacted by the COVID-19 pandemic, we find Decree no. 114 a timely and appropriate aid to support the SME community in Vietnam to sail through this difficult time. However, considering that as predicted by WHO the COVID-19 pandemic may continue to spread until the end of 2021, we opine that Decree no. 114 may be amended and supplemented to reduce the CIT payable in 2021 as well. Decree no. 114 comes into force retrospectively and is effective from the date on which Resolution no. 116 came into force which is 03 August 2020 and is effective for the Financial Year 2020.

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<sup>4</sup> Articles 2.3 and 2.4 Decree no. 114/2020/ND-CP.

## About Us

**LNT & PARTNERS (“LNT”)** is a full-service independent Vietnamese law firm focusing on advisory and transactional work in the areas of corporate, M&A, competition, pharmaceutical, real estate, infrastructure and finance as well as complex and high-profile litigation and arbitration matters. The firm is among the most prominent ones in Vietnam, representing a wide range of multinational and domestic clients, including Fortune Global 500 companies and well-known domestic listed companies.

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