



Vietnam Transfer Pricing Update

On 10 February 2025, the Government of Vietnam issued Decree No. 20/2025/ND-CP (“Decree 20”), which amends and supplements certain articles of Decree No. 132/2020/ND-CP (“Decree 132”) dated 5 November 2020, regarding tax regulations for enterprises with related-party transactions.

Decree 20 will be effective from 27 March 2025 and applies from tax year 2024 onwards.

KEY AMENDMENTS

DEFINITION OF RELATED PARTY RELATIONSHIPS

Decree 20 expands the definition of related parties to include:

- Subsidiaries, controlled entities, or affiliates of credit institutions, as defined under the Law on Credit Institutions.
- Branches that declare and pay corporate income tax will be deemed to have a related party relationship if it is effectively managed, controlled, or subject to decision-making by another enterprise.

Additionally, Decree 20 revises the criteria for determining whether an entity is a related party through financial borrowings. For outstanding borrowings to be classified as related-party transactions, the following conditions must be met:

- The outstanding balance must be at least 25% of the borrower’s equity, and
- The outstanding balance must be at least 50% of the total outstanding balance of medium and long-term liabilities.¹

Exemptions to these provisions apply if:

- The lender or guarantor is operating under the Law on Credit Institutions and does not directly or indirectly participate in the management, control, capital contribution, or investment of the borrowing or guaranteed entity, or

¹ Under the previous regulations in Decree No. 132, it was not explicitly stated that this threshold applied to the total outstanding loan balance.

- The lender, guarantor, borrowing entity, or guaranteed entity is under common management, control, capital contribution, or investment by a third party.

This amendment clarifies the related party relationship between lenders and borrowers, addressing taxpayers' concerns regarding being categorized as having related-party transactions solely due to borrowings from commercial banks. It aims to reduce compliance burdens for taxpayers.

TRANSITIONAL GUIDANCE ON NON-DEDUCTIBLE INTEREST EXPENSE

Due to changes in the definition of a related party, specifically concerning credit institutions, Decree 20 provides transitional guidelines on the non-deductible interest expenses carried forward from taxable periods 2020, 2021, 2022, and 2023. The allocation of non-deductible loan interest expenses may be as follows:

- Equally distributed over the remaining years for companies without related relationships or transactions; or
- Carried forward to the subsequent tax periods as per Decree 132 for companies with related relationships or related party transactions.

RESPONSIBILITIES OF THE STATE BANK OF VIETNAM

Decree 20 broadens the responsibilities of the State Bank of Vietnam to provide information about credit institutions upon request from tax authorities. Such information may include a composition of the board of directors, shareholders owning 1% or more of the charter capital of the financial institution, and affiliated companies of the credit institution.

REVISED APPENDIX I FOR TRANSFER PRICING (“TP”) DECLARATION

Decree 20 introduces a new Appendix I - Disclosure of Related Party and Related Party Transactions, as part of the TP declaration forms. Taxpayers will need to use the new forms when submitting their TP declarations for the 2024 tax year.

CONCLUDING REMARKS

Decree 20 introduces significant changes to transfer pricing regulations in Vietnam, specifically regarding the definition of related parties, the treatment of intercompany borrowings, and the deductibility of interest expenses. These amendments aim to address concerns raised by taxpayers, align with international best practices, and improve clarity in transfer pricing compliance.

Taxpayers involved in related-party transactions—especially those with intercompany financing arrangements—should carefully assess how these updates affect their tax positions. The revised definition of related parties may also require businesses to reevaluate transactions with their independent branches to ensure compliance.

Given the complexity of the new provisions, businesses are advised to review their transfer pricing policies and ensure they have accurate documentation to mitigate risks and optimize tax compliance.

With Decree 20 set to take effect on 27 March 2025, proactive planning will be essential to avoid potential penalties and maintain compliance with Vietnam's evolving tax landscape.

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