



GMS Flash Alert



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Vietnam – New Policy on Tax Treatment of Coronavirus-Related Expenses

The General Department of Taxation (“GDT”) of Vietnam issued new policy concerning coronavirus-related expenses reimbursed to employees that will not be part of an employee’s Personal Income Tax (“PIT”) calculation.

The GDT issued Official Letter No. 4110 dated 27 October 2021 on the tax treatment related to COVID-19 expenses (“OL 4110”). According to OL4110, the GDT lists out a number of expense items that shall not be taken into account for an employee’s PIT calculation although it will be deductible for Corporate Income Tax (“CIT”) as long as the expenses are in fact incurred and are supported by legitimate supporting documents.

WHY THIS MATTERS

Prior to the issuance of the OL4110, the GDT and some local tax authorities provided guidance to taxpayers that quarantine-related expenses incurred for expatriates or specific employees were deductible for CIT purposes, but nonetheless subject to PIT. The change in PIT tax treatment provided under OL4110 should be welcomed by employees and their employers.

Background

During the COVID-19 pandemic, some enterprises have incurred significant expenses relating to COVID-19 prevention in order to help secure business continuity and employees’ safety. Such expenses have not to date been specifically mentioned in any tax regulations. Therefore, tax treatment in practice has faced controversial interpretation, including different guidance among tax authorities.

More Details

Under OL4110, expenses actually incurred and supported by legitimate supporting documents shall not be treated as an employee's taxable income although it shall be deductible for CIT purposes. Such expenses include:

- Quarantine expenses incurred in Vietnam and overseas where the employees are going on an overseas business trip (accommodation, meals, coronavirus test expenses; transportation expenses from immigration control at the border upon entry or from the place where the employees are required to undergo the quarantine to the isolation facility; living costs in the isolation facility; etc.) as per the requirements of competent authorities;
- Coronavirus testing fees, purchases of coronavirus test kits by employees, the purchase of equipment to prevent COVID-19 at work; and
- Meal and accommodation expenses of the employees under the "3T" (three on spot) working scheme.

KPMG NOTE

- OL4110 has broad validity with all provincial tax offices.
- With respect to PIT, the above-noted treatment is applied for both local employees and expatriates.
- It is unclear whether the above treatment can be applied retroactively for 2020 when the coronavirus pandemic started, and whether the treatment is applicable to cases where expatriates first come to Vietnam to start an assignment or those who come back to Vietnam after home leave and incur quarantine expenses in Vietnam.

It is expected that the GDT will provide further clarification on these points.

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