Beyond Vietnam's New PIT Rules:
Key Practical Considerations Under Decree 253 and Circular 87

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July 2026 Changes to Personal Income Tax, and the Practical Implication of These For Businesses and Employees.

Vietnam's new Personal Income Tax framework introduces welcome reforms and resolves a number of long-standing issues for employers and employees. Decree No. 253/2026/ND-CP and Circular No. 87/2026/TT-BTC also contain provisions that require careful application in practice, particularly where the tax treatment depends on the legal character of a payment, the timing of payroll or the quality of supporting records.

This article examines five practical implementation considerations and outlines measured compliance approaches that businesses may wish to adopt as administrative practice develops.

A New Framework, And a More Exacting Implementation Task

Decree 253 and Circular 87 were issued on 30 June 2026 to implement Vietnam's new PIT Law. Both instruments took effect from 1 July 2026, while the provisions concerning business income and salary and wage income of resident individuals apply from the 2026 tax year.

For employers, the reforms are not simply a matter of updating tax rates or payroll thresholds. Several favourable treatments depend on how a payment is characterised under labour law, how the entitlement is documented and whether payroll records demonstrate that the payment falls within the prescribed conditions. The distinction between a legislative requirement and a reasonable implementation position is therefore important.

The following observations are based on the legislation currently in force. They should be applied to the specific facts of each arrangement and revisited as further administrative guidance or local tax authority practice emerges.

1. Employment-related exemptions: character and documentation matter

Severance and job-loss allowances

Decree 253 confirms a broader exemption for severance and job-loss allowances. Importantly, an amount paid above the statutory entitlement may also be exempt where the additional entitlement is clearly provided for in the employer's financial regulations, internal policies, labour contract or collective labour agreement.

This does not mean that any termination payment becomes exempt merely because it is labelled "severance" or "job-loss allowance". The payment should retain that legal and commercial character, be made in connection with a qualifying termination event and be supported by the documents that establish the employee's entitlement. A discretionary completion bonus, retention payment or payment in lieu of another contractual benefit would need to be assessed separately.

A prudent approach is to align the terminology and eligibility conditions across the labour contract, internal policies, termination decision and payroll calculation. Employers that intend to provide enhanced termination benefits should document the entitlement before the termination occurs, rather than attempting to characterise an ad hoc payment retrospectively.

Overtime and night work

Income paid for overtime and night work may qualify for exemption where it is paid in accordance with the Labour Code and relevant regulations and is supported by the required documentation. The exemption should therefore be linked to genuine overtime or night work, rather than used as an alternative label for ordinary taxable salary.

Payroll files should evidence the actual hours worked, the applicable approval process, the basis of calculation and compliance with labour-law limits. The reference in Decree 253 to work performed "at the workplace" also warrants attention where employees work remotely, at client premises or across multiple locations. Pending further administrative guidance, employment contracts and internal policies should define the relevant workplace arrangements accurately and consistently with actual working practices.

Amounts outside the statutory conditions or limits would generally be expected to remain taxable based on the current legislation. Where the facts are mixed, for example, a fixed monthly "overtime allowance" paid irrespective of hours worked, a conservative compliance treatment may be appropriate.

Unused annual leave

The exemption for payments relating to unused annual leave applies where the payment is made in accordance with labour legislation. This is particularly relevant on termination, when the Labour Code requires payment for accrued but unused statutory leave.

More generous company arrangements require separate consideration. Additional leave days granted solely under an internal policy, or cash payments made to active employees where no statutory payment obligation arises, should not automatically be treated as exempt. Employers should identify the statutory and enhanced-policy components, confirm the circumstances in which payment is permitted and retain leave records supporting the calculation. The outcome will depend on the employee's entitlement, leave usage and the terms of the applicable policy.

2. Payments Made After Employment Has Ended

Decree 253 provides for 10% withholding on salary and wage income paid after an employee's labour contract has terminated, where the payment is VND 5 million or more. This addresses an area in which payroll practice had previously varied, particularly between applying progressive withholding to contractual salary and applying 10% withholding after termination.

The rule is a withholding mechanism; it does not convert a non-taxable item into taxable income. Before applying the 10% rate, the employer should first determine whether the underlying payment is taxable and identify any applicable exemption. The VND 5 million threshold should then be considered by reference to the relevant payment.

Timing remains operationally important. A final salary, bonus, commission, leave payment or adjustment may relate to a period before termination but be paid only afterwards. Based on the current wording, the status of the employment contract when the income is paid is relevant to the withholding treatment. Employers should therefore establish a consistent cut-off process between HR and payroll, record the payment date and termination date, and avoid inconsistent outcomes arising solely from administrative delays.

Employees should also be informed that 10% withholding may not represent their final liability. Depending on their circumstances, taxable salary and wage income may need to be consolidated and the final amount determined through annual PIT finalisation. Payroll communications should distinguish clearly between the employer's withholding obligation and the individual's ultimate tax position.

3. Prizes Awarded to Employees: Identify the Capacity in Which the Person Participates

The new framework includes awards from competitions and events organised by an employer for employees within employment income. This clarification should reduce reliance on the separate rules for prize-winning income where the award arises from the employment relationship.

The result may differ where an employee participates in a genuine customer promotion on the same terms as members of the public. In that case, the benefit may arise in the individual's capacity as a customer rather than as an employee. The relevant analysis should focus on eligibility, programme design and the reason the prize was awarded, and not merely on the fact that the recipient happens to work for the organising business.

Businesses should document who may participate, how winners are selected and whether employees receive preferential access or treatment. Employee-only lucky draws, staff competitions and awards linked to service or performance would generally indicate employment income. A public promotion with uniform published terms may support a different characterisation, subject to its specific facts.

4. Dependant Registration: Simplification Does Not Remove The Verification Requirement

Circular 87 increases the relevant income threshold for qualifying dependants and updates the supporting framework. The procedural changes may make registration easier, but employers should not assume that a dependant registration will transfer automatically or remain valid without review when an employee changes employer.

As part of onboarding, the employer and employee should verify the existing registration through the individual's electronic tax account and confirm that the required supporting documents remain available. Duplicate registrations, outdated information or overlapping claims can create difficulties during annual finalisation even where the employee's substantive entitlement is clear.

Claims for "other dependants" require particular care. The taxpayer should be able to demonstrate the qualifying relationship, the dependant's income position and, where relevant, co-residence or the absence of another person with a support obligation. Residence information available through VNeID may assist, but it should be considered as part of the complete evidentiary file rather than treated as a substitute for every other prescribed document.

5. Medical and Education Deductions: Build the Evidence Before Finalisation

Decree 253 introduces deductions for qualifying medical expenses and education and training expenses, subject to annual caps and prescribed eligibility conditions. These are valuable changes, but the practical entitlement depends on more than the existence of an expense.

The available guidance requires supporting documentation and valid invoices. Taxpayers should also retain evidence of the nature of the expense, the beneficiary's eligibility and payment. Depending on the claim, this may include bank records, medical documentation, prescriptions, enrolment documents and evidence that a qualifying domestic institution provided the service.

Taxpayers claiming these deductions must conduct their PIT finalisation directly with the tax authority and cannot authorise the employer to finalise on their behalf. Employers should therefore communicate the distinction early: payroll may assist with annual income and withholding certificates, but the individual remains responsible for substantiating the deduction and completing the direct filing.

What Employers Should Do Now

The implementation priority is governance. Employers should map each affected payment or deduction to its legal basis, identify the supporting documents and ensure that HR, finance and payroll apply the same position.

This means reviewing termination benefits, overtime and leave policies, payroll cut-offs, award programmes, dependant onboarding and finalisation communications. Payroll codes should distinguish taxable, exempt and conditionally exempt components, with exceptions subject to documented approval.

Where interpretation is required, the strongest position is generally consistent, commercially credible and supported by contemporaneous records. Businesses should monitor further guidance and refine their treatment as administrative practice develops.

Conclusion

Decree 253 and Circular 87 provide a clearer and more favourable PIT framework in several areas. Employers that align legal documents, internal policies and payroll records will be better placed to apply the available exemptions and deductions while managing compliance risk.

The immediate task is to identify where professional judgement is required and make that judgement visible through sound governance, consistent administration and appropriate evidence. That discipline will remain important as the framework is tested through the 2026 tax year.

For any further questions or assistance, please reach out to us at vietnam@alitium.com

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