

Vietnam's New CIT Exemptions:

Clarification on Eligibility for FDI Enterprises

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FDI Enterprises Ineligible for New 3-Year Exemption from CIT for Newly Established Enterprises in Vietnam

From 2025 the Vietnamese Government has issued a number of directives to provide incentives for supporting Vietnam's private sector, SMEs and startups. This included the issuance of Resolution 198/2025/QH15 ("Resolution 198") and Decree 20/2026/NĐ-CP ("Decree 20"), which specified numerous taxation incentives and support policies for these sectors. Most notably among these was the provision that implements a Corporate Income Tax (CIT) exemption for the first 3 years for newly established small and medium-sized enterprises (SMEs).

However, a key issue that needed clarification is whether the beneficiaries of the 3-year CIT exemption policy are strictly limited to the domestic private economic sector at the exclusion of foreign-invested enterprises.

Scope of Application of Regulations

Resolution 198 commences by defining its objective: "to provide specific mechanisms and policies for the development of the private economy".

The incentives relating to reductions/exemptions for taxes, fees, and charges prescribed in Article 10 of the Resolution, including the 3-year CIT exemption for newly established SMEs, are built around the core pillar of promoting the internal strength of the domestic private sector.

To define eligibility when implementing the regulations, Decree 20 provides requirements for support dossiers (such as land rental support), specifying enterprises to confirm that they belong to the "private economic sector as prescribed by the law on statistics".

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Interpretation from the HCMC Tax Department

The interpretation of these regulations has been assisted by recent guidance from local tax authorities. According to Official Letter No. 2169/CTPHCM-QLDN3, dated March 9, 2026, the Ho Chi Minh City Tax Department has explicitly addressed the eligibility of foreign-invested firms.

The Department details that even if a company meets the criteria for a small and medium-sized enterprise, the presence of foreign investment capital means the company is not eligible for the CIT incentives provided under Article 10 of Resolution 198 and Clause 3, Article 7 of Decree 20. This ruling serves as a critical reminder for FDI enterprises to review their tax positions to avoid compliance risks.

The Distinction Between the “Private Economy” and the “Foreign-Invested Economy”

Circular 07/2025/TT-BKHĐT, where it relates to statistics and classifications, provides a level of clarity regarding statistical classification by economic type, with economic units in Vietnam divided into separate groups per this Circular:

- **Private Economic Sector (Code 3):** Includes organizations where private individuals hold 100% of the capital, or hold between 50% and less than 100%, or hold the largest share of capital. This is the primary target group entitled to the special mechanisms under Resolution 198.
- **Foreign-Invested Economic Sector (Code 4):** This is an independent statistical category. It includes enterprises where foreign investors hold 100% of the capital, hold between 50% and less than 100%, or hold less than 50% but still maintain the highest holding ratio.

As the “Private economy” and the “Foreign-invested economy” are separated into two distinct economic types for both their statistical and legal definition, enterprises in the foreign-invested group can reasonably be determined that they are not considered to meet the criteria of the “private economic development” policies prescribed in Resolution 198.

Final Comments

The 3-year tax exemption policy has been implemented as a State effort to support and nurture young domestic enterprises during their initial steps. Limiting eligibility to the private economic sector (at the specific exclusion of the foreign sector) helps the authorities focus their limited budget resources on supporting domestic SMEs in enhancing their competitiveness.

Foreign-invested enterprises, while still entitled to general investment incentives under the current Law on Investment and Law on CIT, do not appear to fall under the scope of the specific mechanisms reserved exclusively for the private (domestic) economy under Resolution 198.

For any further questions you may have, please reach out to us at vietnam@alitim.com


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