

Six Most Common Tax Risks in Vietnam:

That Are Likely to Lead to Back Taxes & Penalties

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Understanding Most Common Compliance Tax Risks in Vietnam

In today's increasingly data-driven tax environment, businesses face heightened scrutiny from tax authorities. Even small errors in documentation, invoicing, or compliance procedures can lead to back taxes, penalties, and unexpected financial exposure. Understanding the most common tax risks is essential for strengthening internal controls and maintaining compliance. Below we examine the anatomy of the top tax risks, detailing how they manifest, when they are typically identified, their consequences, and concrete steps for mitigation.

1. Non-deductible Expenses for Corporate Income Tax (CIT) and also for Value Added Tax (VAT)

This is the rejection by tax authorities of expenses claimed by the enterprise, thereby increasing taxable income.

Commonly, expenses are disallowed if they:

- Lack Proof of Business Relationship: The expenditure is not clearly necessary or related to the business operations.
- Documentation Failure: Missing valid invoices, contracts, or acceptance reports.
- Cash Transaction Limit: Using cash for transactions of goods/services exceeding VND 20 million, which recently decreased to VND 5 million.

When is it found?

Typically discovered during a formal tax inspection or audit (which may cover multiple years).

Consequences

- Additional CIT, VAT payable.
- Penalties for incorrect tax declaration (up to 20% of the underpaid tax).
- Late payment interest (currently 0.03% per day on the overdue amount).

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Mitigation

Establish a stringent “3-way match” internal control process for all expenditures: ensure the invoice, the payment, and the acceptance/delivery report are all valid and linked.

2. Invalid Input VAT Invoices (The “Ghost” Supplier Risk)

This refers to using VAT invoices to claim input VAT credits even though the invoices were issued by suppliers that are not operating, have been dissolved, or are fraudulent (“ghost” suppliers).

How it occurs

Enterprises may inadvertently or deliberately procure goods or services from suppliers whose tax codes have been classified as “non-operating at the registered address,” have been closed, or are involved in illegal invoice trading. As a result, VAT invoices issued by such suppliers are likely to be considered invalid, leading to the disallowance of input VAT credits and potential tax reassessments and penalties.

When is it found?

When tax authorities cross-check the enterprise’s list of suppliers’ tax codes against the database of “ghost” or non-operating entities maintained by the tax authorities, discrepancies may be identified. This review is commonly triggered during a VAT refund application or a comprehensive tax audit. Any match with tax codes classified as non-operating, dissolved, or involved in illegal invoice trading may result in the disallowance of input VAT credits and the imposition of tax penalties.

Consequences

- Input VAT credit denial.
- Related expenses are disallowed for CIT deduction.
- Severe penalties and potential criminal exposure for the legal representative if intent to evade tax is proven.

Mitigation

Conduct Supplier Due Diligence (SDD): Periodically verify the legal status and tax history of key suppliers using the General Department of Taxation’s public portal before executing major transactions.

3. Lack of internal financial regulations

This risk manifests when the enterprise operates without formally issued internal financial policies (e.g. financial regulations, delegation of authority, approval matrices, expense and payment rules), or when such regulations exist but are outdated, inconsistently applied, or unsupported by documented procedures.

It is typically identified during tax inspections or comprehensive tax audits, where tax authorities assess not only accounting records but also the legal basis for decision-making, approvals, and cost recognition. The risk often becomes more visible when abnormal expenses, payments or benefits to individuals, or large cash payments are reviewed.

Consequences

- Expenses may be challenged or disallowed for CIT purposes
- Increased risk of tax reassessments, penalties, and late-payment interest
- Weak internal control, higher fraud risk, and management disputes
- Reduced credibility during tax audits

Mitigation measures

- Issue comprehensive internal financial regulations approved by competent authority
- Clearly define approval authority, thresholds, and documentation requirements
- Translate regulations into practical processes and checklists

These regulations should be reviewed periodically to ensure consistent implementation and audit readiness.

4. Issuing invoices at the wrong time

This risk arises when invoices are issued earlier or later than the legally prescribed time.

For example:

- Issuing VAT invoices when selling goods upon cash receipt instead of upon delivery of goods, or
- Delaying invoice issuance to shift revenue between tax periods.

Identification

This is typically identified during VAT inspections, invoice data cross-checks on the e-invoice system, or comprehensive tax audits, where tax authorities reconcile invoice issuance dates with contracts, delivery records, acceptance minutes, bank receipts, and accounting entries.

Consequences

The consequences include additional VAT assessments, potential adjustment of taxable revenue for CIT purposes and administrative penalties. In more serious cases, repeated or systematic mis-timing may be viewed as tax avoidance, increasing audit intensity and compliance scrutiny.

Mitigation measures

- Establish clear internal invoicing policies aligned with VAT regulations
- Define invoice trigger points by transaction type in SOPs
- Strengthen coordination between sales, operations, and accounting teams
- Perform periodic internal checks to ensure timely and accurate invoicing

Invoice timing should be driven by clearly defined trigger events, consistently applied across sales, operations, and accounting, rather than by cash flow or commercial pressure.

5. Expenses not supported as business-related

This risk arises when enterprises record expenses that lack a clear link to business activities, are personal in nature, or are insufficiently supported by valid documentation. Common examples include personal consumption charged to the company, non-business travel and entertainment, or costs that are reasonable in form but unsupported in substance.

Identification

This is typically identified during tax audits, expense sampling by tax authorities, or reviews triggered by abnormal expense ratios compared to revenue or industry benchmarks. The risk often surfaces when supporting documents, internal approvals, or explanations of business purpose are missing or inconsistent.

Consequences

The consequences include the disallowance of such expenses for CIT purposes, resulting in additional tax payable, late-payment interest, and administrative penalties.

Mitigation

Mitigation requires establishing clear internal expense policies defining allowable and non-allowable expenses, business purpose criteria, approval thresholds, and documentation requirements. These policies should be supported by practical SOPs, expense review checklists, and periodic internal reviews to ensure expenses are consistently assessed, properly approved, and defensible during tax audits.

6. Data mismatch between submitted financial reports, audit data, and invoicing records

This risk arises when inconsistencies exist between figures reported in statutory financial statements, tax filings, e-invoice data, and information provided to tax authorities during audits. Common causes include late adjustments not reflected across all systems, manual errors, inconsistent accounting treatments, or poor coordination between accounting, tax, and invoicing functions.

Identification

This is typically identified during tax audits, e-invoice data analytics, or cross-checks between financial statements, CIT/VAT returns, and the tax authority's centralized invoice database. The risk often becomes apparent when enterprises are asked to reconcile reported revenue, expenses, or VAT balances across different submissions.

Consequences

The consequences include challenges to the credibility of the enterprise's records, additional tax assessments, disallowance of expenses or input VAT, late-payment interest, and administrative penalties. Significant or repeated mismatches may trigger deeper audits or heightened compliance monitoring.

Mitigation

Mitigation requires strong data reconciliation controls, including periodic reconciliations between accounting ledgers, tax returns, and e-invoice systems before submission. Clear responsibility for data ownership, documented adjustment logs, version control for reports, and pre-audit reconciliation checklists are critical to ensure consistency and defensibility during tax audits.

Final Recommendation: Proactive Health Checks

To minimize exposure to the risks outlined above, enterprises must move beyond reactive compliance. Conducting a periodic Tax Health Check (Tax Review), ideally before the end of the fiscal year, allows the enterprise to voluntarily self-correct mistakes, thus mitigating the risk of harsh penalties that would otherwise be imposed by the tax authority during a formal inspection.

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


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