

# Vietnam Personal Income Tax Reform 2026: Key Changes Under the Draft Guiding Decree

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[22 April 2026]

## Expanded exemptions, higher thresholds, and clearer compliance rules for salaries and wages in Vietnam for 2026

Vietnam's Personal Income Tax regime has undergone meaningful updates in 2026, primarily through the introduction of changes through the Personal Income Tax ("PIT") Law 2025, with many of the changes taking effective from January 2026. With the release of the latest Draft Decree there is further detailed guidance on the application of revised rules for salaries and wages under this Law.

While the core framework of PIT remains intact, the Draft Decree introduces a number of practical refinements that will directly affect how employers structure remuneration, administer payroll, and manage tax compliance. In particular, the proposed changes expand the scope of non-taxable income, increase key thresholds, and provide more explicit conditions around areas that have historically created uncertainty in practice.

For employers and foreign-invested enterprises operating in Vietnam, the importance of these updates is less about headline reform and more about execution. The changes require careful alignment of employment contracts, internal policies, payroll systems, and supporting documentation to ensure that tax positions can be substantiated during inspection. The following sections set out a detailed overview of the proposed changes, supported by a summary table highlighting the key differences from current regulations and the practical implications for implementation from 1 January 2026.

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## Overview of Changes

#	Topic	Previous Rule	New Rule (from 2026)	Key Takeaway
1	Severance / Job-Loss Allowance	Any amount exceeding the statutory allowance was taxable income	Excess amount is non-taxable, provided it is documented in financial policies, labour contracts, or collective labour agreements	Major benefit for employees in qualifying termination cases; requires proper documentation
2	Employer Retirement Fund Contributions	Non-taxable cap: VND 1 million per person/month	Non-taxable cap raised to VND 3 million per person/month	Employers can contribute more to supplementary pension/life insurance tax-free
3	Mid-Shift / Lunch Meal Allowance	Non-taxable cap: VND 730,000 per person/month	Non-taxable cap raised to VND 1.2 million per person/month	Employers need to review and update payroll calculations from January 2026
4	Overtime & Night Work Pay	General exemption existed but lacked detailed documentation requirements	Exemption clarified; employers must maintain a detailed schedule of night/overtime hours and payments for tax authority review	Payroll documentation must be updated; excess above legal levels remains taxable
5	Payments for Unused Annual Leave	Rules existed but were not clearly elaborated	Exemption applies provided payment complies with conditions and rates under labour law; excess is taxable	Payroll records and documentation should be updated accordingly
6	PIT Finalization: Secondary Income Threshold	Additional income from a secondary source $\leq$ VND 10 million/month (with 10% withheld) could be excluded from personal finalization	Threshold raised to $\leq$ VND 15 million/month	Fewer individuals required to self-finalize; payroll systems need updating
7	10% Withholding Threshold (Non-Labour Contract)	Withholding required for payments $\geq$ VND 2 million per payment	Threshold raised to $\geq$ VND 3 million per payment	Reduces admin burden for small payments; payroll/finance systems must reflect the new threshold
8	"Other Dependents" Category	Concept of "helpless status" (không nơi nương tựa) referenced in Circular 111 but not clearly defined, and led to disputes	Criteria explicitly defined: must be single with no relatives, directly supported by taxpayer, and (for non-immediate family) belong to poor or near-poor households	Reduces disputes with tax authorities; clearer eligibility for siblings, grandparents, aunts/uncles, nieces/nephews
9	Medical & Education Expense Deductions	Not previously available as a deduction from taxable income	Option 1: Medical $\leq$ VND 20M/year; Education $\leq$ VND 21M/year. Option 2: Medical $\leq$ VND 23M/year; Education $\leq$ VND 24M/year	Still in draft. Exact amounts subject to change upon final Decree

## Discussion of Draft Changes

### Non-Taxable Income for Severance and Job-Loss Allowance:

The portion of severance or job-loss allowance exceeding the statutory level will be treated as non-taxable income.

- *Change from previous regulations*  
Under prior rules, any amount exceeding the statutory allowance was considered a taxable benefit provided by the employer. This treatment will no longer apply.
- *Conditions for application*  
The excess amount remains non-taxable if it is clearly stipulated in one of the following:
  - o The employer's financial policies or internal regulations
  - o Labour contracts
  - o Collective labour agreements

*Employers may provide severance or job-loss allowances higher than the legal minimum without creating additional personal income tax obligations for employees, provided such payments are properly documented in internal or contractual frameworks. This is significantly different from the current regulations and beneficial to the termination cases qualified for these types of allowances.*

### **New Non-Taxable Limit for Retirement Fund Contributions (previous limit: VND 1 million)**

Contributions paid by employers on behalf of employees for supplementary pension insurance under the Law on Social Insurance, voluntary pension insurance, and life insurance, in excess of VND 3 million per person per month, will be treated as taxable income. Under previous regulations (Circular 111) the cap was set at VND 1 million.

### **New Non-Taxable Limit for Mid-Shift Meal Allowances**

The tax exemption limit for meal allowances (mid-shift or lunch) paid by the employer to employees has increased to VND 1.2 million per person per month, having increased from VND 730,000 per person per month previously. Where the employer organizes mid-shift or lunch meals for employees in forms such as direct cooking, purchasing meal portions, or providing meal vouchers, these benefits are not included in employee taxable income.

*One issue that some employers may face is a conflict between the Draft Decree and where they have followed Circular 003/2025/TT-BNV to apply their customized meal allowance as a reasonable level. Under this Circular in 2025, the meal allowance (mid-shift meal) is not subject to the previous cap of VND 730,000 per person per month, and instead, employers can determine an appropriate allowance level, provided it is clearly specified in the labour contract, collective labour agreement, or the company's internal policies or regulations. Clarity is still needed on this element going forward.*

*These allowances are not subject to Personal Income Tax (PIT) if they comply with documented policies and are properly supported by relevant records; however, any amount paid in excess of the stipulated level will be treated as taxable income for PIT purposes. With this new cap for meal allowance stipulated by this Decree, employers may need to re-consider their policy, update/revise the payroll calculations and PIT declarations from January 2026 to reflect the precise tax treatment in their payroll records.*

### **Non-Taxable Treatment of Overtime Pay and Payment for Unused Annual Leave**

PIT exemptions apply to wages and salaries earned from night work and overtime work, provided that the work complies with conditions and working hours as prescribed by labour laws. Organizations and individuals paying income must prepare a detailed schedule clearly reflecting night working hours, overtime hours, and the corresponding payments made to employees. This schedule must be retained by the income payer and presented upon request to the tax authorities.

This PIT exemption also applies to wages and salaries paid for unused leave days, provided the payments comply with conditions and payment levels stipulated under labour laws and regulations applicable to officials, public employees, and civil servants. Where wages and salaries for night work, overtime, or unused leave payments exceed the levels prescribed by law, the excess portion shall be included in the employee's taxable income.

*Accordingly, the tax exemption treatment for overtime pay and payments for unused leave days has been further clarified in the Draft Decree. Employers should take this into account and update their payroll records and documentation accordingly.*

### **Increases to Income Limits for Tax Declarations and Finalizations**

One of the required conditions for an individual to authorize their employer to process their annual PIT finalization is where an individual who has additional income earned elsewhere, and the average monthly value of the income across the year does not exceed VND 15 million (increased from 10 million under current regulations), and for which the income-paying organization or individual has applied temporary personal income tax withholding of at least 10% on that income, is not required to carry out final tax settlement in respect of this portion of income if there is no request to do so.

In addition, organizations and individuals that pay salaries, wages, remuneration, or other payments to resident individuals who do not enter into a labour contract or enter into a labour contract for a term of less than three months, and where payments equal or exceed VND 3 million (increased from the current limit of VND 2 million), they are required to withhold tax, declare and pay tax on behalf of the individual at the rate of 10% on the income before payment to the individual.

*The revised thresholds reduce tax burdens while maintaining clear withholding obligations. This will require timely updates to payroll systems, tax procedures, and internal guidance. Enterprises should update their payroll systems to reflect the new thresholds, revise internal policies and clearly communicate PIT finalization eligibility to employees, ensure correct 10% withholding for contractors and short-term workers, and align HR, payroll, and finance processes to maintain consistent compliance. Overall, the priority is system alignment and*

clear communication to ensure accurate implementation from 2026 onward.

### Clarity for the “Other Dependent” Category

The dependent category now includes “Other Dependents” without support, who are single and have no relatives (or no remaining relatives) and are directly supported by the taxpayer:

- a) Biological brothers and sisters of the taxpayer;
- b) Paternal and maternal grandparents; paternal and maternal aunts and uncles of the taxpayer;
- c) Biological nieces and nephews of the taxpayer (children of the taxpayer’s siblings);
- d) Other individuals whom the taxpayer is directly responsible for supporting in accordance with the law.

These individuals must either live with the taxpayer or be financially supported by the taxpayer at a minimum level equal to the dependent deduction, and such support must be confirmed by the dependent.

Further relevant conditions:

- a) For individuals of working age, they must simultaneously meet the following conditions:
  - Have no ability to work; and
  - Have no income, or have an average monthly income from all sources during the year not exceeding the level prescribed by the Minister of Finance;
- b) For individuals outside working age, they must have no income, or have an average monthly income from all sources during the year not exceeding the level prescribed by the Minister of Finance;
- c) Individuals specified in Point d, Clause 2 of this Article must meet the conditions in Points a and b above and must belong to poor or near-poor households as prescribed by law.

*In practice, tax authorities have often required taxpayers to exclude this dependent category from tax calculations where the dependent’s “helpless status” (không nơi nương tựa) - as referenced in Circular 111 but not clearly defined - cannot be substantiated. This has created practical difficulties for both employers and employees in determining eligibility, often leading to higher tax liabilities.*

*The Draft Decree addresses this issue by clarifying the concept and establishing more explicit criteria for “other dependents”. Additionally, non-immediate family members (e.g., siblings, grandparents, aunts/uncles, nieces/nephews) must belong to poor or near-poor households as prescribed by law.*

### Deductible Payments for Health and Education Expenses

The Draft Decree has introduced 2 separate options that permit resident taxpayers to deduct certain expenses from taxable income (from salaries and wages), including medical and education expenses for themselves and their dependents. Only one of the options will be selected in the final Decree, with the 2 proposed options being:

#### **Option 1:**

- Medical expenses: Up to VND 20 million per year for examination and treatment at domestic healthcare facilities (excluding cases covered under Article 23 of the Health Insurance Law).
- Education expenses: Up to VND 21 million per year for tuition fees at domestic educational institutions, including preschool, general education, vocational training, university, and other professional skill training programs.

#### **Option 2:**

- Medical expenses: Up to VND 23 million per year under the same conditions as above.
- Education expenses: Up to VND 24 million per year under the same conditions as above.

*These thresholds are currently proposed only in the Draft Decree, and they remain subject to change. Therefore, it is important to monitor the issuance of the final regulation before applying these limits in practice, as the final official amounts will determine the appropriate tax treatment for the full year.*

## Conclusion

The Draft Decree introduces significant updates to Personal Income Tax on salaries and wages effective from 2026, including expanded non-taxable benefits (notably for severance payments, retirement contributions, and meal allowances), clearer conditions for tax exemptions on overtime and unused leave, and higher thresholds for tax finalization and withholding obligations. It also provides more precise definitions for dependent eligibility and introduces proposed deductions for medical and education expenses, pending final approval. Overall, the changes aim to modernize the tax framework, reduce administrative burdens, and improve clarity, requiring enterprises to timely follow up with the upcoming official issuance of the Decree, update policies, payroll systems, and documentation processes to ensure accurate compliance.

For any further questions or assistance in your the transition and implementation to ensure full compliance with the new regulations, please reach out to us at [vietnam@alitim.com](mailto:vietnam@alitim.com)

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