

Transfer Pricing Inspections in Vietnam: High-Risk Indicators and Common Violations

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High-Risk Indicators and Common Violations Identified in Transfer Pricing Inspections in Vietnam

In Vietnam, enterprises engaging in related-party transactions are required to comply with transfer pricing regulations designed to ensure that such transactions are conducted in accordance with the arm's-length principle. The key regulatory framework is set out in Decree No. 20/2025/ND CP, which governs the tax administration of enterprises with related-party transactions. Under this regulation, taxpayers must disclose related-party transactions in their annual corporate income tax (CIT) return and prepare supporting transfer pricing documentation.

In recent years, transfer pricing inspections have become a major focus of tax authorities in Vietnam. As cross-border transactions and corporate group structures become more common, the authorities increasingly rely on risk-based approaches to identify companies that may be shifting profits through related-party transactions.

While tax authorities rely on a number of risk indicators to determine which enterprises should be prioritized for transfer pricing audits, many inspections reveal typical compliance violations such as insufficient documentation or non-arm's-length pricing.

Understanding both common violations and risk signals can help companies prepare more effectively and reduce exposure during tax inspections.

Risk Indicators That May Trigger Transfer Pricing Audits

Through the process, tax authorities collect information, conduct analysis and comparisons, and identify enterprises with high transfer pricing risk.

1. Continuous Losses Over Multiple Years

Companies that report losses for several consecutive years while operating in a profitable

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industry are often flagged for review. Persistent losses may suggest that profits are being shifted to other group entities.

2. High Ratio of Related-Party Transactions

Enterprises whose related-party transactions account for a large proportion of total revenue, costs, or purchases may be considered higher risk.

This is particularly relevant when most key transactions—such as purchasing raw materials, selling products, or receiving services—are conducted within the group.

3. Significant Payments to Related Parties Abroad

- Large payments such as:
 - management fees
 - royalties
 - interest expenses
 - service fees

to related parties located overseas may attract scrutiny, especially if the economic substance of the services is unclear.

4. Low Profitability Compared with Industry Peers

Even when companies are profitable, tax authorities may still investigate if their profit margins are significantly lower than comparable companies in the same industry.

This often triggers benchmarking analysis or re-analysis during inspections.

5. Business Restructuring within a Multinational Group

Changes such as:

- converting a full-function distributor into a limited-risk distributor
- transferring intellectual property or key functions to other jurisdictions
- shifting manufacturing functions within the group

may raise transfer pricing concerns if they result in reduced taxable profits in Vietnam.

6. Rapid Growth but Low Taxable Profit

Companies experiencing strong revenue growth but reporting minimal taxable income may also attract attention from tax authorities, particularly if the enterprise operates within a multinational group.

Common Violations Identified in Transfer Pricing Inspections

Common violations often stem not from deliberate tax avoidance but from inadequate documentation, weak benchmarking analysis, or poorly structured intercompany transactions.

1. Profit Margins Outside the Arm's-Length Range

- One of the most common issues identified during inspections is when a company's profitability falls significantly below that of comparable independent companies.
- When tax authorities observe that a company's operating margin is consistently lower than industry benchmarks, they may suspect that profits have been shifted to related entities through pricing policies. In such cases, the authorities may perform a benchmarking analysis and adjust taxable income accordingly.

2. Inadequate Transfer Pricing Documentation

Vietnamese regulations require enterprises with related-party transactions to prepare transfer pricing documentation, typically including:

- Local File
- Master File

- Country-by-Country Reporting (where applicable)

Failure to prepare adequate documentation is a frequent violation identified during inspections. Without sufficient documentation, companies may find it difficult to demonstrate that their related-party transactions comply with the arm's-length principle, which significantly increases the risk of tax adjustments.

3. Unsupported Related-Party Service Expenses

Tax authorities often challenge management service fees, consulting fees, or technical service charges paid to related parties. If the taxpayer cannot demonstrate:

- the actual services performed
- the benefits received
- and the arm's-length basis for the pricing

these expenses may be partially or fully disallowed for tax purposes.

4. Non-Market Pricing in Intercompany Transactions

Transactions involving the purchase or sale of goods, royalties, or services between related parties are carefully examined to determine whether they reflect market conditions.

If the price paid by the Vietnamese entity is significantly higher or lower than comparable market prices, tax authorities may adjust the transaction value and increase the taxable income.

Actions for Vietnamese Companies

Transfer pricing inspections in Vietnam are becoming more sophisticated as tax authorities increasingly apply data analysis and risk-based selection methods.

Companies should not only focus on technical compliance but also assess whether their financial results and transaction structures may trigger risk indicators during the tax authority's screening process.

To reduce exposure, enterprises should:

- prepare robust transfer pricing documentation
- periodically review profit margins against market benchmarks
- ensure strong supporting documentation for related-party transactions
- monitor internal pricing policies and group structures

A proactive transfer pricing strategy can significantly reduce the likelihood of adjustments and ensure smoother outcomes during tax inspections.

Transfer Pricing Risks

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


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