

Vietnam's Updated Foreign Contractor Tax (FCT): What Businesses Need to Know About Taxable Revenue Determination

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Key Updates on Foreign Contractor Tax (FCT): Major Changes in Taxable Revenue Determination

Foreign Contractor Tax (FCT) is a withholding tax applied to foreign contractors and suppliers earning income in Vietnam. The tax types included under FCT for organisation are corporate income tax (CIT), value-added tax (VAT).

Circular 20/2026/TT-BTC on Corporate Income Tax ("CIT") was released and became effective from 12 March 2026, which introduced significant changes, particularly in the determination of taxable revenue and the applicable tax calculation methods for foreign contractor tax (FCT).

Formula for Determining Corporate Income Tax (CIT) Payable

The Corporate Income Tax (CIT) payable by a foreign contractor is calculated directly based on the taxable revenue and the prescribed CIT rate applicable to the relevant business activity:

$$\text{CIT Payable} = \text{Taxable Revenue} \times \text{CIT Rate (\%)}$$

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Components of Taxable Revenue

The Circular stipulates that taxable revenue is the total revenue received by the foreign contractor, without any deduction for expenses. It also includes any taxes and expenses paid on behalf of the foreign contractor by the Vietnamese party, where applicable.

Revenue Component	Treatment	Notes
Contract Value	Included at 100% in taxable revenue	No deduction is allowed for operating costs, labor costs, or other expenses.
CIT Paid on Behalf	Must be grossed up	Applicable where the contract price is quoted on a net basis (exclusive of tax).
Reimbursed Expenses	Included in taxable revenue	Includes airfare, accommodation, insurance, and other expenses paid on behalf of the contractor by the Vietnamese party.
Vietnamese Subcontractors	Excluded	Amounts paid to Vietnamese subcontractors or subcontractors that declare and pay tax under the declaration method are excluded from taxable revenue.
Materials and Services Purchased in Vietnam	Excluded	Costs of goods and services purchased in Vietnam with valid supporting invoices for the performance of the contract are excluded from taxable revenue.

Changes in Determine CIT Taxable Revenue

A key revision lies in how taxable revenue for Corporate Income Tax (CIT) is determined:



Implications of the Change

Potential Increase in Tax Liability: Since CIT taxable revenue now includes VAT, the tax base is broadened. This change increases the overall taxable amount, potentially leading to a higher FCT burden compared to previous regulations.

Simplification of Tax Calculation: The alignment of VAT and CIT taxable revenue simplifies the calculation approach by removing the need to maintain separate tax bases. However, this alignment also amplifies the impact under net contracts, where both VAT and CIT are simultaneously grossed up on a unified and higher tax base.

FCT Calculation Methods

The standard FCT calculation methods remain applicable, with adjustments to align with the new taxable revenue rules.

Criteria	Gross basis (Contractor bears taxes)	Net basis (Vietnam side bears taxes)
Taxable Revenue (TR)	Contract value (including taxes)	$\frac{\text{Payment amount}}{(1 - \text{VAT rate} - \text{CIT rate})}$
VAT	$\text{TR} \times \text{VAT rate}$	$\text{TR} \times \text{VAT rate}$
CIT	$\text{TR} \times \text{CIT rate}$	$\text{TR} \times \text{CIT rate}$

Example: a foreign contractor providing standard services to a Vietnamese entity, with both VAT and CIT applicable rate at 5%, and a contract value of USD 100,000. Detailed calculations are presented in the table below for both scenarios where the contract value is quoted on a gross basis and on a net basis.

Criteria	Gross basis (Contractor bears taxes)	Net basis (Vietnam side bears taxes)
Taxable Revenue (TR)	= Contract value = 100,000	= $100,000 \div (1 - 5\% - 5\%) = 111,111$
VAT (5%)	$100,000 \times 5\% = 5,000$	$111,111 \times 5\% = 5,556$
CIT (5%)	$100,000 \times 5\% = 5,000$	$111,111 \times 5\% = 5,556$
Total tax	10,000	11,112
Net Amount To Contractor	$100,000 - 10,000 = 90,000$	100,000

Key Considerations for Businesses

Businesses should promptly update their tax calculation models to ensure compliance with the new regulations.

Moreover, it is essential for businesses to assess the financial impact of these changes. This includes evaluating any potential increase in foreign contractor tax (FCT) costs and analysing how the new requirements may affect pricing strategies and overall profit margins.

For any questions or assistance regarding best practices or a review of your current tax arrangements, please contact us at vietnam@alitim.com

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