

VAT Deduction Risks for Late Payments: Updated requirements for VAT deductibility

Alitium
Level 5, L'Mak Signature Building
147 Hai Ba Trung, District 3
Ho Chi Minh City
Vietnam

P: +84 (28) 3535 6460
E: vietnam@alitium.com

Contact
Phuong Vo
Managing Partner
phuong.vo@alitium.com

Phung Nguyen
Accounting & Tax Partner
phung.nguyen@alitium.com

Matthew Lourey
Chairman & Advisor
mlourey@alitium.com

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VAT Risks in Vietnam for Late Payments, Requiring Careful Consideration for Customers & Suppliers from 1 July 2025

The practice of customers making payment to suppliers outside of (ie, later than) the terms specified in commercial contracts is a common occurrence. Customers often pay later than initially agreed due to cash flow issues, operational constraints or intentional commercial decisions. While this may appear to primarily disadvantage suppliers, commencing from 1 July 2025, this can also pose significant risks to customers: specifically the loss of input VAT deductions.

Key Regulations under Decree 181/2025/NĐ-CP

Decree 181/2025/NĐ-CP (Point g, Clause 2, Article 26) defines the right to deduct input VAT as subject to whether the buyer complies with the contractual payment terms and maintains correct supporting documents.

Where an invoice remains unpaid simply because the contractual payment due date has not yet fallen due, the corresponding input VAT remains deductible, provided that a written contract, VAT invoice, and non-cash payment evidence are in place once payment becomes due.

However, if the payment due date has passed and the invoice remains unpaid, the corresponding input VAT is no longer deductible for the customer. In another words, the business must declare and adjust a reduction to deductible input VAT corresponding to the unpaid value in the tax period where the payment obligation arose.

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Example Scenarios

- **Scenario 1:**

A business purchases machinery valued at VND 800 million under a contract stating payment is due 90 days after delivery. At the time of VAT declaration, payment is not yet due. Deduction is allowed.

- **Scenario 2:**

The same machinery purchase reaches its due date, but payment has still not been made. Since there is no evidence of non-cash settlement, the deductible VAT must be reversed in the tax period when payment was due.

Compliance Implications for Customers

Late payment now creates a direct tax disadvantage for customers, not just suppliers. Without timely payment with non-cash payment evidence (for transactions VND5 million or greater) or proper adjustment of contractual terms, customers may face non-deductible VAT amounts, effectively increasing the cost of goods or services by the VAT rate (e.g., 8% or 10%).

Recommendations

To safeguard input VAT deductions, businesses should:

1. **Ensure proper documentation:**

- o Written purchase contracts clearly stating deferred payment terms
- o VAT invoices
- o Evidence of non-cash payment (bank transfer, offsetting agreement, etc.).

2. **Track payment schedules closely to avoid missing due dates**

3. **Adjust contract terms proactively:**

- o If payment delay is likely, the customer and supplier should sign an appendix extending the payment deadline before it falls due.
- o Reviewing and ensuring documentation “aligns” payment evidence with contractual terms to retain VAT deductibility.

Takeways

From 1 July 2025, late payments are no longer just a commercial issue, they can present a significant tax compliance and cash flow issue. Businesses need to tighten documentation, monitor payment schedules, and ensure contractual terms match payment reality to preserve their VAT deduction rights.

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


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