Vietnam's Interest Deduction Limits:

Deductibility for Companies with Related-Party Transactions

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Official Letter No. 6487/CT-QLNT and Interest Deductibility for Vietnam Companies with Related-Party Transactions

Companies in Vietnam may borrow at commercial rates, and even from commercial sources, with no intention of shifting profits, and still face statutory limits on interest deductions. Where a company in Vietnam has related-party transactions it must examine and ensure it doesn't fall foul of Vietnam's statutory interest deduction limits for corporate income tax that restrict tax deductions for interest expenses. This can have significant implications for capital intensive business and companies with weakened earnings.

In Official Letter No. 6487/CT-QLNT dated 28 August 2026, Vietnam's Tax Authority restated that the related-party status for interest deductibility is determined through criteria for ownership, control, management and transactions, and therefore a transfer-pricing or tax-evasion motive is not required. Where an enterprise has both a related-party relationship and related-party transactions, deductible borrowing costs are determined under Article 16 of Decree 255/2026/ND-CP, regardless whether loans are from external sources or rates are consistent with commercial lending interest rates.

When does the restriction apply

The starting point is to identify whether the company has a related party under Article 5 of Decree 255 and whether it has transactions with that party during the tax period. Related party relationships can arise through shareholdings, common ownership, management or effective control. For example, direct or indirect ownership of at least 25% of another enterprise's owner contributed capital is one specified route. Transactions are wider than loans: purchases, services, asset transfers, guarantees and shared resources between related parties can also be relevant.

Financing can itself establish a related party relationship in prescribed cases. One test covers a lender or guarantor where the borrower's total outstanding loans with that lender or guarantor are at least 25% of the borrower's owner contributed capital and exceed 50%

of its total medium and long term debt. Article 5 contains particular exclusions for qualifying credit institutions and other specified circumstances, so a bank loan should not automatically be treated as a related party loan merely because it is large. Other routes to a related party relationship may still apply.

The distinction is important, as a company does not escape the interest limit simply because its own borrowings are all from independent lenders. If it has a related party relationship and transactions with that party, the Article 16 interest calculation covers total borrowing interest expense, subject to the decree's specified exceptions. A related party service or trading transaction may therefore bring an otherwise ordinary bank borrowing into the calculation.

The 30% limit in practice

Article 16(3) limits deductible net borrowing interest to 30% of the company's net operating profit for the period plus net borrowing interest and depreciation for that period. Net borrowing interest is determined as loan interest expenses, less deposit interest and lending interest arising in the period. This is a tax calculation based on the statutory components; a company should reconcile it to its accounts rather than substitute a general EBITDA figure without checking the definition.

The calculation covers the taxpayer's total borrowing interest expense, so interest on both related-party and third-party loans must be reviewed.

Illustrative calculation	VND billion
Borrowing interest expense	12.0
Less: deposit and lending interest income	(2.0)
Net interest expense	10.0
Net operating profit	15.0
Depreciation	5.0
Base for the 30% calculation: 15 + 10 + 5	30.0
Maximum deductible net interest: 30% × 30	9.0
Net interest exceeding the current-year limit	1.0

The figures are illustrative. The actual calculation should be reconciled to the company's accounts and the reporting instructions in Decree 255.

The excess may be carried forward if a subsequent tax period has room below its interest deduction limit. The carryforward period is no more than five consecutive years, beginning with the year after the excess arose. Article 16 also provides exceptions for specified taxpayers and loans; each exception must be checked against the company's circumstances.

What Official Letter No. 6487/CT-QLNT clarifies

The Vietnam Young Entrepreneurs Association had sought a more substantive classification of financing arrangements by purpose and risk, together with advance guidance for complex transactions. The Tax Authority's response pointed back to the existing related party criteria and Article 16 calculation, and indicated that implementation would continue to be monitored for further guidance. The letter does not establish a new advance confirmation procedure or an exemption for loans entered into without tax avoidance intent.

A practical review for finance teams

Review area	What to check
Related-party status	Ownership, control, management and transaction relationships
Financing population	All borrowing interest expense, together with deposit and lending interest income
Calculation	Reconciliation of net operating profit, net interest and depreciation to the accounts
Carry forward	Determine carry-forward interest deductions arising in each year, available capacity in later years, and the five-year deadline
Loan documentation and support	Agreements, use of funds, interest calculations, payment evidence and support for the interest rate

Key takeaway

The official letter reconfirms that the related-party rules apply according to the prescribed criteria, regardless of whether a business intended to shift profits. Businesses should identify their related-party transactions, calculate the interest limit and retain clear evidence for their financing arrangements.

For businesses considering new funding, a comprehensive review is useful before financing is signed, covering sources of a loan, group guarantees, the company's existing related party transactions and its expected earnings as these can materially change the after tax cost of the borrowing.

To discuss your tax, compliance or structural arrangements in Vietnam, contact *Alitium* at Vietnam@Alitium.com.

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