Vietnam's latest transfer pricing developments

On 10 February 2025, the Government of Vietnam issued Decree 20/2025/NĐ-CP ("**Decree 20**"), which introduces substantial revisions to the country's transfer pricing regulations. The new provisions take effect from 27 March 2025 and apply from the 2024 corporate income tax ("**CIT**") year.

Decree 20 aims to address practical difficulties encountered under Decree 132/2020/NĐ-CP ("**Decree 132**"), particularly in relation to financing transactions with credit institutions, and to better align domestic law with the Law on Credit Institutions (No. 32/2024/QH15).

A. Revisions to the definition of related party relationships

Clarifications on Lending and Guarantees

Under Decree 132, taxpayers faced significant challenges because borrowing from credit institutions often resulted in the automatic classification of the lender as a related party, thereby triggering:

(i) transfer pricing documentation obligations; and
(ii) restrictions on interest deductibility (subject to a cap of 30% of EBITDA).

Decree 20 narrows this definition. From the 2024 tax year, credit institutions (e.g. commercial banks, guarantors) will not be considered related parties unless one of the following applies:

(i) the lender or guarantor participates in the management, control, capital contribution, or investment of the borrowing entity; or
(ii) both the credit institution and the borrowing entity are under common control or ownership by a third party.

This approach acknowledges that arm's-length commercial bank borrowings should not, by default, trigger related party scrutiny or lead to the disallowance of interest deductions.

Expanded Scope of Related Parties within Financial Groups

Simultaneously, Decree 20 updates and expands the definition of related parties to include subsidiaries, affiliates, and independent branches of credit institutions. These relationships are defined in detail in accordance with the Law on Credit Institutions, and cover:

(i) subsidiaries where >50% of capital or voting rights are held by a credit institution;
(ii) controlling enterprises with >20% capital ownership in commercial banks;
(iii) related companies where the credit institution holds >11% ownership (even if not a subsidiary); and
(iv) independent branches are now also explicitly included.

These refinements serve to capture substance-over-form control relationships within financial services groups while excluding legitimate third-party commercial lending.

B. Transitional Guidance on Interest Expense Deductibility

Under Decree 132, interest expenses exceeding the 30% EBITDA cap could be carried forward for up to five years. However, this was problematic for companies that were deemed to have related party transactions only by virtue of bank borrowings—a classification that Decree 20 has now revised.

To address this, Decree 20 provides transitional relief for interest expenses disallowed in the 2020–2023 tax years. Specifically:

(i) where the sole related-party transaction involved a credit institution now excluded under Decree 20, the disallowed interest may be evenly allocated over the remaining carry forward years starting from 2024; and
(ii) where the entity continues to have related-party relationships under the new definition, the original carry forward rules in Decree 132 remain applicable.

This transitional guidance aims to provide equitable treatment for affected taxpayers and to avoid penalising historically compliant financial structures.

C. Amendments to Transfer Pricing Compliance and Forms

Decree 20 mandates the use of a revised version of Appendix I, which forms part of the annual CIT finalisation return. This appendix requires disclosure of:

(i) related party relationships; and
(ii) transactions with such parties.

Taxpayers are expected to adopt the revised Appendix I in their 2024 CIT filings. Other compliance requirements, such as the preparation and maintenance of the Local File and Master File, remain in force under Decree 132, along with submission deadlines (within three months from the fiscal year end).

D. Expanded Responsibilities of the State Bank of Vietnam (SBV)

To enhance data transparency and audit capability, the SBV has been granted new obligations. It must, upon request by the tax authorities, provide information on:

(i) related individuals of board members and executives of credit institutions;
(ii) related parties of shareholders holding ≥1% of capital; and
(iii) related companies as defined under the Law on Credit Institutions.

This provision supports the Vietnamese tax authority's ability to verify disclosure accuracy and to identify undeclared related party networks.

Country-by-Country Reporting (CbCR) Developments

On 3 January 2025, Vietnam signed the Multilateral Competent Authority Agreement (MCAA) on the exchange of Country-by-Country Reports (CbCR). This step positions Vietnam to participate in automatic bilateral exchanges of CbCRs with other signatories, subject to:

(i) mutual activation of exchange relationships; and
(ii) implementation of safeguards on confidentiality, consistency, and proper use.

As of 13 February 2025, Vietnam had activated CbCR exchanges with 29 jurisdictions, including the UK, Australia, France, Japan, China, and Germany.

Taxpayers are still required to comply with domestic CbCR rules under Decree 132. The General Department of Taxation has also issued instructions to monitor compliance retrospectively for the 2020–2022 tax periods, requesting provincial tax departments to report instances of non-submission.

Concluding Thoughts

Vietnam's 2025 transfer pricing reforms, encapsulated in Decree 20, represent a material shift towards greater legal precision, commercial realism, and international coordination. The revised treatment of credit institutions, coupled with transitional relief for legacy interest deductions and strengthened information exchange frameworks, reflects a more sophisticated and proportionate approach to transfer pricing regulation.

Multinational enterprises and Vietnamese entities alike are encouraged to:

(i) review and update their related party analyses and declarations;
(ii) adjust historical interest deductibility calculations in accordance with the transitional rules;
(iii) align their CbCR practices with the expanded international exchange network; and
(iv) enhance compliance frameworks to ensure readiness for audits and information requests by tax authorities.

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Taxise Asia LLC (WTS Taxise) is a Singapore-based law firm specialising in international tax and international trade law. Founded in 2019 by some of the region's market-leading international tax and international trade lawyers and practitioners, WTS Taxise offers practical and audit conflict-free objective advice on complex local and international tax and international trade matters drawn from its unique mix of professionals with law firm, in-house, income tax tribunal, academia, and international organisation experience.

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