

# Legal Update

## Thailand and Vietnam: Tax Incentives, Hidden Costs and What Foreign Investors Actually Save

*This article is the second in a four-part series comparing Thailand and Vietnam as investment destinations for foreign businesses. In the first article, we examined market entry and the legal fit between business activity and ownership structure. In this second article, we turn to tax. More specifically, we look at where investors actually save, where hidden costs arise, and why headline tax rates rarely tell the full story. The next articles in the series will compare the suitability of each jurisdiction for manufacturing, technology and regional headquarters functions, and examine the common mistakes foreign investors make when entering these markets.*

When foreign investors compare Thailand and Vietnam, the tax discussion often starts with a deceptively simple observation: both jurisdictions generally impose corporate income tax at 20 percent. That comparison is technically correct, but commercially incomplete.

In practice, the real tax question is not the statutory rate. It is the effective tax cost after incentives, withholding on cross-border payments, VAT recovery timing, documentation requirements and the administrative effort required to preserve the intended tax position.

That is where the two jurisdictions begin to diverge in more meaningful ways.

Thailand's system is often driven by the availability of specific incentive regimes, particularly through the Board of Investment (BOI), which can reduce the tax burden dramatically for qualifying projects and, in some cases, also provide relief from foreign business restrictions.

Vietnam, by contrast, offers a combination of corporate income tax holidays, reduced rates, import duty relief, and other targeted incentives, but typically expects a higher level of documentary discipline and ongoing tax compliance in return.

For investors, the commercial takeaway is straightforward: a jurisdiction may look attractive on paper because of its incentive package, but the real question is whether the business can access those benefits efficiently and preserve them in practice.

## 1. The real comparison is effective tax cost, not the headline rate

Both Thailand and Vietnam generally apply a 20 percent corporate income tax rate. In both jurisdictions, however, the standard rate often understates the true planning opportunity available to foreign investors.

In Thailand, the effective rate for many foreign projects may be significantly lower where BOI promotion is available, with corporate income tax exemptions potentially extending for up to 13 years depending on the nature of the activity and the project's economic contribution.

Vietnam's framework is similarly incentive led, with preferential corporate income tax rates as low as 10 percent for 15 years, 17 percent for 10 years and tax holidays or 50 percent reductions available for qualifying projects.

This is the first point that investors often miss. The effective tax outcome in both jurisdictions depends less on the standard corporate tax rate than on whether the business has been structured early enough to qualify for the right incentives.

That is particularly important because the mechanisms differ.

In Thailand, incentives are often channelled through an application-based promotion system. BOI approval is central. The value proposition is not limited to tax savings: promoted businesses may also access customs relief, land ownership rights for promoted activities, facilitation for foreign experts and exemptions from certain FBA restrictions.

In Vietnam, by contrast, the incentive story is more directly linked to the characteristics of the project itself, including sector, location, scale and whether the project falls within areas prioritised under the investment and tax regime. Import duty relief and land rent incentives can also be material, especially for manufacturing, export or strategic technology projects.

In other words, both jurisdictions can be highly tax efficient. But they get there in different ways.

## 2. Vietnam: lower effective rates can be compelling, but compliance is part of the price

Vietnam's corporate tax incentives are often highly competitive in practical terms. Qualifying projects may benefit from tax exemption for up to four years, a 50 percent tax reduction for up to nine subsequent years and preferential corporate income tax rates of 10 percent, 15 percent or 17 percent, depending on the sector, location and scale of the project. Additional incentives may include import duty exemptions for fixed assets or export production inputs, land rent relief and certain work permit-related concessions.

For many investors, especially those in export manufacturing, software, IT-enabled services and innovation-led sectors, this can produce a very attractive effective tax profile.

But Vietnam's more favourable effective rate often comes with a different operational reality: documentation, timing and compliance discipline are central to preserving the benefit. Ordinary business expenses must be supported by proper documentation, including VAT invoices and non-cash payment evidence above prescribed thresholds and quarterly and annual compliance must be managed carefully. Vietnam's system also expects taxpayers to make provisional corporate income tax payments through the year, with the amount paid by year-end reaching at least 80 percent of the final liability to avoid late-payment interest.

That is why Vietnam can offer a lower effective tax rate while still feeling more burdensome in practice. The benefit is real, but so is the administrative price of achieving it.

### **3. Withholding tax and cross-border payment leakage matter more than many investors expect**

For many foreign investors, corporate income tax is only one part of the tax analysis. Just as important is the treatment of outbound payments such as dividends, royalties, interest and service fees, since these can materially affect the overall efficiency of the investment structure.

In Thailand, certain Thailand-sourced payments made to foreign companies that are not carrying on business in Thailand are generally subject to withholding tax. As a starting point, the domestic rates are typically 10 percent on dividends and 15 percent on interest, royalties and certain service fees, subject to any reduction available under an applicable double tax treaty.

Vietnam approaches the issue differently through what is commonly referred to as the Foreign Contractor Tax (FCT) regime. FCT is not a standalone tax, but a withholding mechanism that can combine both corporate income tax and VAT elements when a Vietnamese entity pays an overseas service provider. In Vietnam, general service contracts may attract foreign contractor tax comprising 5 percent corporate income tax and 5 percent VAT, while interest is typically subject to 5 percent corporate income tax with no VAT component. A particularly important distinction is that dividends paid to foreign corporate shareholders are generally not subject to withholding tax in Vietnam once the underlying profits have been taxed locally.

This means the same group payment flow can produce different leakage depending on the jurisdiction and the character of the payment. For investors planning management fees, licensing structures, treasury arrangements or profit repatriation, that can materially affect the overall tax model.

## 4. VAT Is not just an indirect tax issue — it is a working capital issue

VAT is often analysed too narrowly. For many foreign investors, especially in manufacturing and export-oriented businesses, the real concern is not the nominal VAT rate but the working capital consequences of input VAT accumulation and refund timing.

Thailand’s standard VAT rate is currently 7 percent while Vietnam’s standard rate is 10 percent with a reduced 5 percent rate for certain essential goods and a 0 percent rate available in both jurisdictions for qualifying exports and certain international services. At first glance, this can make Thailand appear simpler from a cash-flow perspective. But the more important point is that in both countries, exporters may accumulate excess input VAT credits during the investment and ramp-up phase.

In Thailand, businesses may still claim refunds for input VAT incurred on export-related expenses, but the process can take time depending on Revenue Department review procedures.

In Vietnam, the issue can be even more pronounced. Exporters often pre-finance VAT on local purchases and recover it only later, sometimes months after the transaction. A refund is generally available where excess input VAT credits exceed VND 300 million in a filing period. This can have a material impact on working capital, particularly where a project incurs large setup-phase expenses before revenue begins.

## 5. A practical comparison of the two tax frameworks

At a high level, the tax distinction between Thailand and Vietnam can be summarised as follows.

Topic	Thailand	Vietnam	Practical takeaway
Standard corporate income tax	20 percent	20 percent	The headline rate is similar, so the real comparison lies elsewhere
Main incentive model	BOI-led project promotion	Statutory incentives based on sector, location and project type	Thailand is more approval-led; Vietnam is more eligibility-led
Potential effective rate	Can be reduced materially through BOI, including CIT exemptions up to 13 years	Can be reduced through tax holidays, 50 percent reductions and preferential rates of 10 percent, 15 percent or 17 percent	Both can be highly efficient if structured properly
Dividend remittance to foreign corporates	Generally subject to 10 percent WHT, unless reduced by treaty	Generally no withholding tax for foreign corporate shareholders once local CIT is paid	Vietnam can be attractive for profit repatriation

Topic	Thailand	Vietnam	Practical takeaway
Cross-border service / royalty / interest payments	WHT commonly applies, often at 15 percent absent treaty relief	FCT may apply, including CIT and sometimes VAT elements	Group payment flows must be modelled early
VAT standard rate	7 percent	10 percent	Thailand looks lighter on paper, but both jurisdictions can create refund timing issues
Export VAT position	0 percent rate with input VAT recovery	0 percent rate with input VAT recovery, but refund timing can be commercially sensitive	VAT should be analysed as a working capital item
Compliance burden	Meaningful, but generally more familiar to many investors	Documentation-heavy and invoice-driven	Vietnam's lower effective rate may come with higher administrative discipline

The broader lesson is that both jurisdictions can produce strong tax outcomes, but the real question is how much friction the investor must absorb to achieve them.

## 6. Hidden costs investors should not ignore

This is where the analysis becomes more useful. Hidden costs are often what differentiate a good-looking structure from a durable one.

### *a. Incentives are only valuable if they are locked in properly*

In Thailand, BOI benefits depend on qualifying activity and continued compliance with the approved project scope. In Vietnam, incentive eligibility needs to be reflected correctly at the licensing stage, particularly through the IRC and ERC. In both jurisdictions, the tax result is shaped early.

### *b. Cross-border payments can erode the expected tax position*

Interest, royalty and service-fee flows can create withholding leakage in Thailand or FCT exposure in Vietnam. Treaty relief may help, but only if the structure and documentation support it.

### *c. VAT refunds can become a financing issue*

Exporters in both jurisdictions may accumulate input VAT during setup and growth phases. If refund timing is not built into the financial model, a tax-efficient project can still become working-capital intensive.

## *d. Compliance failures can turn incentives into disputes*

Vietnam's invoice-driven system and quarterly payment expectations, and Thailand's documentation-based deductions and withholding requirements, both make tax administration a real operating issue rather than just a filing issue.

## **7. So, where do investors actually save more?**

The more useful answer is that each jurisdiction rewards a different kind of investor profile.

Thailand can be particularly attractive where the investor can access BOI promotion and values a package that combines corporate tax relief, customs incentives and operational facilitation. That can be especially compelling for advanced manufacturing, promoted technology businesses and projects that benefit from a close link between tax incentives and regulatory support.

Vietnam can be especially compelling where the business is export-oriented, qualifies for long-term reduced corporate income tax rates or tax holidays and can maintain the level of compliance needed to preserve those benefits. Its treatment of dividends to foreign corporate shareholders and its wider incentive architecture can also make it appealing for certain group structures.

But the stronger boardroom message is this: the better tax jurisdiction is not necessarily the one with the more attractive incentive brochure. It is the one where the business can achieve a lower effective tax cost without building in unmanageable compliance drag, cash-flow pressure or withholding leakage.

## **8. Practical takeaway for investors**

Before choosing between Thailand and Vietnam on tax grounds, investors should model more than corporate income tax. They should assess the likely availability of incentives, the character of outbound payment flows, the VAT recovery profile during the ramp-up period and the compliance effort required to support the structure.

In practice, the best tax result is usually not the most aggressive one. It is the one that the business can access early, document properly and sustain over time.

That is why the right question is not "Which country has lower tax?" It is "Which country gives this business the better effective tax outcome, once the real operating mechanics are taken into account?"

The next article in this series will compare Thailand and Vietnam from an operating-model perspective, focusing on which jurisdiction is better suited for manufacturing, technology teams and regional headquarters functions.

## Further information

Should you have any questions on investing in Thailand or Vietnam, please get in touch with the team at PDLegal.

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