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Personal income tax on salaries and wages in Vietnam: Legal regulations and practical application

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Abstract
Personal income tax (PIT) on salaries and wages is an important source of state budget revenue and an instrument for achieving social equity. In Vietnam, this area is governed by the Law on PIT and its implementing regulations. However, practical application still raises several issues relating to the determination of taxpayers, deductions, tax brackets, and mechanisms for tax withholding, declaration, and finalization. Using legal research, analysis, and comparative legal methods, this article analyzes the legal framework governing PIT on salaries and wages, thereby identifying limitations concerning the reasonableness of the tax brackets, deduction mechanisms, and the effectiveness of tax administration. On this basis, the article proposes several solutions to improve the legal framework towards ensuring fairness, simplifying compliance obligations, enhancing administrative efficiency, and ensuring consistency with Vietnam's socio-economic conditions.

Keywords: PIT, salaries and wages, family circumstance-based deductions, progressive tax brackets, tax administration

Introduction
PIT on salaries and wages plays an important role in mobilizing revenue for the state budget and ensuring social equity [1]. As it directly affects individuals' income, tax policy applicable to this category of income needs to strike a balance between the requirements of increasing state budget revenue and the principle of taxation according to ability to pay. At the same time, the appropriate design of deductions and tax rates is significant in ensuring a necessary level of income for employees.

In Vietnam, the legal framework governing PIT on salaries and wages continues to raise several issues relating to the determination of taxable persons, taxable income, family circumstance-based deductions, progressive tax brackets, and mechanisms for tax withholding and finalization. These issues warrant further consideration in the context of the Law on PIT 2025, which takes effect from 01 July 2026, introducing notable changes to family circumstance-based deductions and tax policies applicable to income from salaries and wages. On this basis, this article analyzes Vietnamese legal regulations on PIT from salaries and wages in order to propose several recommendations for improving the legal framework, towards a fairer, more transparent, and more effective tax system.

Methods
This study employs a qualitative legal research method combined with policy analysis to clarify the legal framework governing PIT on salaries and wages in Vietnam. The qualitative legal analysis method is used to systematize and interpret legal regulations concerning taxpayers, taxable income, family circumstance-based deductions, tax rates, and mechanisms for tax withholding and tax finalization. Policy analysis and legal assessment methods are applied to examine the consistency, reasonableness, and enforceability of the current regulations. At the same time, the study employs document analysis and selective comparative legal analysis with Singapore and Estonia to identify similarities, differences, and experiences that may be referenced by Vietnam. Finally, legal reasoning is used to identify limitations in the current legal framework and propose recommendations for improving PIT policies applicable to income from salaries and wages in Vietnam. These methods enable the study to approach the issue systematically while combining an analysis of legal regulations, an assessment of practical application, and reference to international experiences.

Results and discussion
1. Overview of the Role of Personal Income Tax on Salaries and Wages
PIT first appeared in England in 1799 [2] and gradually became one of the fundamental taxes, widely applied around the world, playing an important role in generating State budget revenue and ensuring social equity. In Vietnam, PIT was initially established under the Ordinance on Income Tax on High-Income Earners, which was adopted by the Standing Committee of the National Assembly on 27 December 1990 and came into effect on 09 April 1991, marking the beginning of the development and completion of the legal framework on PIT in Vietnam. Since then, the Ordinance has been amended and supplemented several times, most recently in 2004, and has been replaced to date by the Law on PIT 2007 (as amended and supplemented in 2012, 2014, and 2024).

Among taxable income categories, income from salaries and wages is the most common type of income and is identified as the primary contributor to PIT revenue [4] because it is relatively easy to determine and arises from relatively stable employment relationships.

Under Clause 2, Article 3 of the Law on PIT 2007 (as amended and supplemented in 2012, 2014, and 2024), income from salaries and wages refers to income received by individuals from employment relationships or relationships of an employment nature, including salaries, wages, allowances, subsidies, and other additional amounts as prescribed by law. In particular, salary refers to the amount paid by an employer to an employee under an agreement for the performance of work, including the salary according to the job or position, salary allowances, and other additional amounts [4].

On that basis, the concept of PIT on salaries and wages may be summarized as follows: “PIT on salaries and wages is a direct tax imposed on income arising from employment relationships or relationships of an employment nature, including salaries, wages, and related amounts, which is used by the State as an instrument to generate State budget revenue and regulate the distribution of income in society.” This is an important source of State budget revenue and, at the same time, an instrument for regulating income and ensuring social equity. As a direct tax, tax liability is determined on the basis of taxable income and deductions as prescribed by law, thereby ensuring greater consistency with each individual’s ability to pay.

For society, PIT on salaries and wages contributes to income redistribution through the progressive tax schedule. Individuals with higher incomes are subject to higher tax rates, while the family circumstance-based deduction mechanism helps ensure the necessary level of income for taxpayers and their families, thereby narrowing income disparities and enhancing social equity.

For the State, this tax not only generates State budget revenue but also supports the implementation of social security policies and the regulation of income among population groups. According to data from the Ministry of Finance, the proportion of PIT in total State budget revenue increased from 5.33% in 2011 to 9.12% in 2024, demonstrating the increasingly important role of this source of revenue.

Table 1: PIT Revenue in Total State Budget Revenue over the Years [5]

Year	Total State Budget Revenue (VND billion)	PIT (VND billion)	PIT/Total State Budget Revenue (%)
2011	721,804	38,469	5.33
2012	734,883	44,959	6.12
2013	828,348	46,553	5.62
2014	877,697	47,844	5.45
2015	1,017,756	56,723	5.57
2016	1,131,503	65,235	5.77
2017	1,293,627	78,775	6.09
2018	1,431,662	94,364	6.59
2019	1,553,611	109,406	7.04
2020	1,510,579	115,150	7.62
2021	1,591,411	127,661	8.02
2022	1,815,500	162,944	8.98
2023	1,620,758	147,113	9.08
2024	2,043,700	186,300	9.12

For tax administration, the mechanisms of tax withholding, declaration, and tax finalization enable tax authorities to control individuals’ income, prevent tax revenue losses and tax evasion. At the same time, reconciling employees’ income with salary and wage expenses declared by enterprises contributes to strengthening the linkage between PIT administration and corporate income tax, thereby improving the effectiveness of State budget management [6].

2. Current Legal Regulations on PIT on Salaries and Wages and Practical Implementation in Vietnam

Current Regulations

The legal framework governing PIT on salaries and wages in Vietnam is currently regulated primarily by the Law on PIT and its implementing regulations, with provisions focusing on the determination of taxpayers, taxable income, tax rates, and tax administration mechanisms. Taxpayers are classified into resident individuals and non-resident individuals based on criteria concerning the period of presence and permanent residence in Vietnam [7]. This distinction determines the scope of taxable income and the method of tax calculation applicable to individuals.

For resident individuals, the Law on PIT No. 04/2007/QH12 provides that income from salaries and wages is subject to the progressive tax schedule, while non-resident individuals are subject to a flat tax rate of 20% [8]. The tax schedule consists of seven brackets, with tax rates ranging from 5% to 35%, reflecting the principle of taxation according to ability to pay [9]. In addition, the law provides mechanisms for tax withholding at source, tax declaration, and tax finalization to ensure the proper and full collection of tax and the control of individuals’ income [10].

Table 2: Progressive Tax Schedule under the Law on PIT No. 04/2007/QH12

Tax Bracket	Annual Taxable Income (VND million)	Monthly Taxable Income (VND million)	Tax Rate (%)
1	Up to 60	Up to 5	5
2	Over 60 to 120	Over 5 to 10	10
3	Over 120 to 216	Over 10 to 18	15
4	Over 216 to 384	Over 18 to 32	20
5	Over 384 to 624	Over 32 to 52	25
6	Over 624 to 960	Over 52 to 80	30
7	Over 960	Over 80	35

At present, PIT legislation continues to be adjusted towards simplifying the tax schedule, changing deductions, and modernizing tax administration.

From 01 July 2026, the progressive tax schedule applicable to resident individuals is redesigned from seven brackets to five brackets, with tax rates ranging from 5% to 35%, while expanding the income thresholds between brackets [11]. The reduction in the number of tax brackets stems from the fact that the previous seven-bracket tax schedule contained multiple income thresholds with relatively narrow gaps, making the determination of tax liability more complex and causing taxpayers to move to a higher tax bracket even when income increased only slightly. Reducing the schedule to five brackets and widening the gaps between brackets helps reduce the number of bracket transitions, limit changes in tax brackets resulting from insignificant changes in income, and simultaneously simplify tax calculation and administration. These changes provide a new legal basis for assessing the appropriateness of PIT policy on salaries and wages under current socio-economic conditions.

Table 3: Progressive Tax Schedule under the Law on PIT No. 109/2025/QH15

Tax Bracket	Annual Taxable Income (VND million)	Monthly Taxable Income (VND million)	Tax Rate (%)
1	Up to 120	Up to 10	5
2	Over 120 to 360	Over 10 to 30	10
3	Over 360 to 720	Over 30 to 60	20
4	Over 720 to 1,200	Over 60 to 100	30
5	Over 1,200	Over 100	35

Practical Implementation

Practical implementation of PIT legislation on salaries and wages shows that tax policy has contributed to generating State budget revenue, regulating income, and ensuring social equity. The mechanism of withholding tax at source enables tax authorities to control tax liabilities at the time income is paid, while the mechanisms of tax declaration and finalization allow tax liabilities to be adjusted according to individuals' actual total income.

However, in practice, the determination of taxpayers based primarily on residency criteria reveals certain limitations. In the context of an increasingly flexible labor market, particularly with the growth of the informal sector, estimated at approximately 33 million workers, and in the second quarter of 2025 [12], as well as the development of cross-border working arrangements, residency criteria no longer fully reflect the nature of individuals' income.

The difference between the tax calculation methods applicable to resident and non-resident individuals may also create significant differences in tax liabilities at higher income levels.

Regarding tax rates, the previous seven-bracket tax schedule had relatively narrow gaps between brackets, resulting in rapidly increasing tax liabilities when income changed. The transition to a five-bracket tax schedule from 01 July 2026 is expected to simplify the system and limit excessively rapid changes in tax liabilities among income groups [13]. However, the actual impact of the new tax schedule on different groups of taxpayers and State budget revenue still needs to be further assessed.

Regarding tax administration, the procedures for tax declaration and finalization remain relatively complex for individuals with multiple sources of income; administrative data are not yet fully synchronized, and the capacity for automatically aggregating income remains limited. This increases compliance costs, the risk of inaccurate declarations, and the administrative burden on tax authorities. Regarding the deadlines for fulfilling tax obligations, resident individuals must conduct annual tax finalization no later than 30 April of the following year if they directly finalize their tax liabilities [14]; for other income, declaration is made upon each occurrence. For organizations and enterprises paying income, the law provides for responsibilities to withhold tax at source and conduct tax declarations; tax is paid monthly or quarterly. The mechanism of withholding tax at source contributes to improving tax administration efficiency, while also sharing certain similarities with indirect taxation in that the taxpayer does not completely coincide with the tax bearer.

Assessment

In terms of strengths, Vietnam has established a relatively comprehensive legal framework on PIT from salaries and wages, including mechanisms for determining taxpayers based on residency status, a progressive tax schedule for resident individuals, a flat tax rate for non-resident individuals, and mechanisms for tax withholding, declaration, and finalization. The reform of the tax schedule and modernization of tax administration from 2026 also demonstrate a trend towards simplification and improved administrative efficiency.

In terms of limitations, three main issues can be identified. First, the criteria for determining resident individuals may still present difficulties in cases involving cross-border workers and individuals with multiple sources of income [15]. Second, the tax schedule and the differences between resident and non-resident individuals require continued assessment of fairness among different groups of taxpayers. Third, tax declaration and finalization mechanisms and the tax data system are not yet fully synchronized, particularly for individuals with multiple sources of income, thereby increasing compliance costs and the risk of errors [16].

Accordingly, although the legal framework on PIT from salaries and wages has been established relatively comprehensively, it still needs to be further improved towards: (i) ensuring that the criteria for determining taxpayers are appropriate to new forms of employment; (ii) enhancing the fairness and reasonableness of the tax schedule; (iii) simplifying tax declaration and finalization procedures; and (iv) promoting data integration and sharing and the application of technology in tax administration. These are also issues that should continue to be examined in the context of the new PIT regulations beginning to apply in 2026.

3. Recommendations for Improving the Legal Regulations on PIT from Salaries and Wages in Vietnam

In order to enhance the fairness, transparency, and effectiveness of PIT administration on salaries and wages in Vietnam, it is necessary to continue improving the legal framework governing this type of income. From a legal perspective, the improvement process should focus on refining the criteria for determining resident individuals, ensuring reasonableness in determining tax liabilities among different groups of taxpayers, while modernizing the mechanisms for tax declaration, finalization, and tax data management. Based on the limitations analyzed above, this article proposes three key solutions to improve the legal framework on PIT from salaries and wages in the current context.

First, improving the criteria for determining individual tax residency status in a manner that reflects the individual's economic ties to Vietnam

To address the difficulties in determining tax residency status for individuals working across borders or having employment relationships in multiple countries, the criteria for determining individual tax residency should continue to be improved in a manner that combines the individual's physical presence with the degree of their economic ties. Excessive reliance on the "183-day rule" creates legal loopholes that enable certain high-income individuals to allocate their time of stay across multiple countries in order to circumvent their tax obligations as tax residents.

International legal practice demonstrates a strong trend towards a comprehensive assessment of the "center of vital interests." In addition to the experience of Singapore, which applies an administrative concession mechanism to determine tax residency status based on the continuity of an employment contract spanning multiple tax years (qualitative test), rather than merely mechanically counting the number of days of presence [17], the United Kingdom (UK) and Australia provide important legislative points of reference for Vietnam.

In the United Kingdom, the tax authority applies the Statutory Residence Test (SRT), which is highly systematic in nature. Notably, UK law establishes a matrix linking the duration of physical presence with the Ties Test. These ties include the family tie, accommodation tie, work tie, and the number of days of presence in previous years. Under this mechanism, the more economic and social ties an individual has with the UK, the fewer days of presence are required for the individual to be determined as a tax resident. In certain cases, residency may be established after only 16 to 45 days of presence. This rule effectively eliminates the tax avoidance practice of remaining below the 183-day threshold by manipulating the number of days of stay.

Similarly, Australian tax law approaches this issue through the Resides Test and the Domicile Test. The Australian Taxation Office (ATO) conducts an overall assessment of the nature of the individual's stay, the intention to establish an economic base, the location of business assets, as well as the place where the individual's family resides. Accordingly, a foreign expert who is physically present in Australia for fewer than 183 days may nevertheless be subject to tax obligations on worldwide income as a tax resident if the individual maintains strong "economic ties" with Australia, such as holding a controlling interest in a company, maintaining a permanent home, and having their family settled there.

Drawing on the experience of Singapore, the United Kingdom, and Australia, Vietnam may consider this approach in developing a more flexible and robust set of criteria for determining tax residency. Accordingly, in addition to the quantitative criterion of 183 days, qualitative criteria should be incorporated into the law, including the duration of the employment contract, the extent of ownership of assets or business establishments in Vietnam, and family ties. The incorporation of these criteria would not only more accurately reflect the underlying source of income arising from new forms of employment, but should also be designed consistently with the dispute-resolution mechanisms under the Double Taxation Agreements (DTAs) to which Vietnam is a party, thereby ensuring the State's taxing jurisdiction while avoiding the risk of double taxation.

Second, improving the tax schedule and the mechanism for determining tax liabilities between resident and non-resident individuals

To ensure the principle of fairness according to ability to pay, it is necessary to continue reviewing the progressive tax schedule and the differences in tax calculation methods between resident and non-resident individuals. The application of a progressive tax schedule to resident individuals and a flat tax rate to non-resident individuals has the advantage of simplifying tax administration; however, in certain cases, it may create significant differences in tax liabilities between individuals with equivalent levels of income. Therefore, the improvement process should simultaneously assess the number of tax brackets, the gaps between brackets, tax rates, and taxable income thresholds, thereby ensuring a reasonable allocation of tax liabilities among different income groups.

In particular, it is necessary to assess the impact of the new tax schedule on high-income groups and the differences in tax liabilities between resident and non-resident individuals in cases involving high levels of income. Adjustment of the tax schedule should not merely aim to simplify the number of tax brackets but should ensure consistency between income levels, ability to contribute, and the degree of State regulation. At the same time, the determination of tax liabilities should be considered in relation to family circumstance-based deductions and other reasonable deductions to ensure that tax is imposed only on the portion of income that actually reflects the individual's ability to contribute. This provides a basis for maintaining vertical equity among different income groups and horizontal equity among individuals with similar economic circumstances.

Third, improving the mechanisms for tax declaration and finalization and developing a tax data system towards automation

To address the complexity of tax declaration and finalization procedures and the lack of full synchronization of tax data, the administration of PIT should gradually shift from a mechanism in which taxpayers independently collect, consolidate, and substantiate information to a mechanism under which tax authorities proactively exploit data from income-paying organizations and relevant authorities. Accordingly, the law should uniformly regulate the responsibility of income-paying organizations to electronically transmit data concerning salaries and wages, deductions, and amounts of tax withheld at source; while simultaneously developing a unified individual tax database capable of interconnecting information from different sources [18]. This is particularly necessary for individuals with multiple sources of income, as the ability to aggregate data for each individual would enable tax authorities to better control tax liabilities and limit underreporting or duplicate declarations.

The experience of Singapore and Estonia shows that the application of electronic data can significantly reduce taxpayers' compliance burdens. In Singapore, through the Auto-Inclusion Scheme (AIS), income-paying organizations transmit employees' income information directly to the tax authority, and this information is used to automatically include the relevant information in individuals' tax returns [19]. Meanwhile, Estonia applies a pre-filled tax return mechanism based on data already held by the tax authority, under which taxpayers primarily review and supplement information when discrepancies are identified [20]. Vietnam may refer to these models to gradually establish a pre-filled PIT return mechanism, under which information on salaries, wages, tax withheld, and deductions is automatically updated from the tax administration system. Accordingly, taxpayers would only need to review, confirm, or adjust the information instead of independently collecting and resubmitting documents already available in the system.

The transition to a data-driven administration model would not only contribute to reducing taxpayers' compliance costs and the risk of errors but also enhance the tax authority's capacity to inspect and reconcile information, limit tax revenue losses, and establish a foundation for proactive, transparent, and modern tax administration [21].

Conclusion

The legal framework on PIT from salaries and wages in Vietnam has gradually been improved over time, making an important contribution to income regulation, ensuring social equity, and generating a stable source of State budget revenue. The current regulations have established a relatively comprehensive legal framework for determining taxpayers, taxable income, family circumstance-based deductions, and tax administration mechanisms.

However, in the context of socio-economic changes and the development of the digital economy, certain regulations have revealed limitations, such as the criteria for determining resident and non-resident individuals, family circumstance-based deductions that have not timely reflected living costs, as well as difficulties in tax administration and compliance with tax obligations in relation to new forms of income of employees.

Therefore, further research and improvement of the legal framework on PIT from salaries and wages in accordance with practical conditions, while enhancing the effectiveness of tax administration and taxpayers' compliance awareness, is necessary. This would contribute not only to ensuring the fairness and transparency of the tax system but also to enhancing the effectiveness of income regulation and mobilizing financial resources for the sustainable development of the State [22].

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