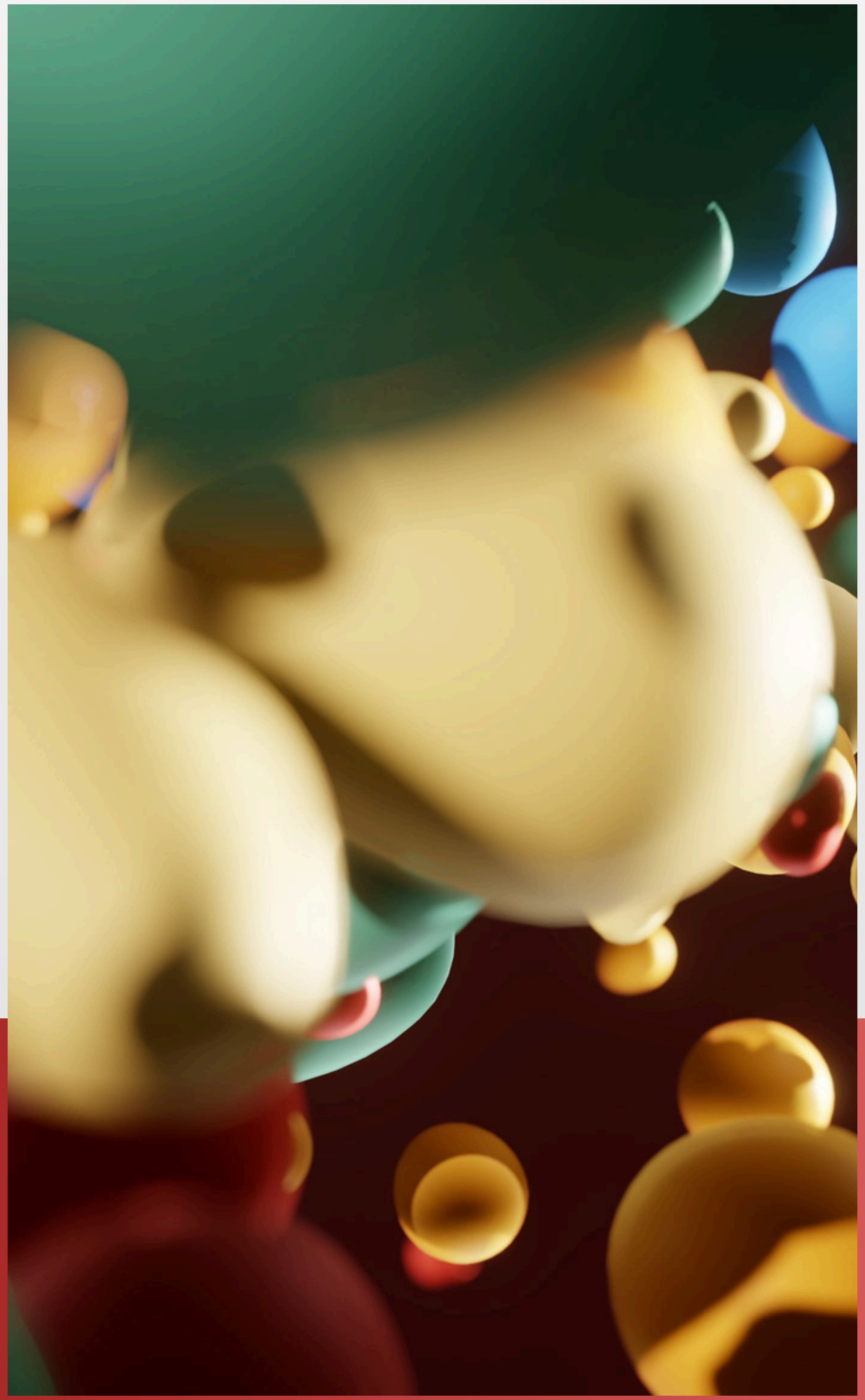

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HANDBOOK OF 40 KEY QUESTIONS AND ANSWERS ON RELATED PARTY TRANSACTIONS (DECREE 255/2026/NĐ-CP)

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Question 1: When does Decree 255/2026/NĐ-CP take effect, and to which tax period does it apply?

Answer: Decree 255/2026/NĐ-CP officially takes effect from 1 July 2026 and applies starting from the 2026 corporate income tax period.

Question 2: Which subjects fall within the scope of application of Decree 255/2026/NĐ-CP?

Answer: The Decree applies to:
- Organizations engaged in the production and trading of goods and services that are corporate income taxpayers entering into transactions with related parties.
- Tax authorities.
- Other State agencies, organizations, and individuals involved in the tax administration of related party transactions.

Question 3: What types of transactions fall within the definition of "related party transactions" under Decree 255?

Answer: These are transactions involving the purchase, sale, exchange, lease, hire, loan, borrowing, transfer, or assignment of goods, or the provision of services; borrowing, lending, financial services, financial guarantees, and other financial instruments; the purchase, sale, exchange, lease, hire, loan, borrowing, transfer, or assignment of tangible assets and intangible assets; and agreements to purchase, sell, or jointly use resources such as assets, capital, and labor, or to share costs, between related parties (excluding transactions falling within the scope of State price regulation).

Question 4: What is the minimum capital contribution ratio required to determine that two enterprises have a direct or indirect related party relationship?

Answer: A related party relationship is established where one enterprise directly or indirectly holds at least 25% of the owner's equity of the other enterprise.

Question 5: Where two enterprises both receive capital contributions from a third party, what ratio determines that they are related parties?

Answer: Both enterprises each have at least 25% of their owner's equity held, directly or indirectly, by the same third party.

Question 6: What is the minimum shareholding that the largest shareholder of an enterprise must hold to be considered a related party?

Answer: If an enterprise is the largest shareholder in terms of owner's equity and directly or indirectly holds at least 10% of the total shares of the other enterprise, the two parties are determined to have a related party relationship.

Question 7: Where one enterprise lends capital to another, what conditions regarding the outstanding loan balance and ratio give rise to a related party relationship?

Answer: A related party relationship arises where a guarantee or loan of capital, in any form, simultaneously satisfies two conditions:

- Total outstanding loan balance is at least equal to 25% of the owner's equity of the borrowing enterprise; and
- Accounts for more than 50% of the total outstanding balance of all medium- and long-term debts of the borrowing enterprise.

Question 8: Which lending arrangements does Decree 255 exclude from being treated as related party relationships, even where the loan-ratio threshold is exceeded?

Answer: The rule deeming a relationship to be a related party relationship on the basis of a loan does not apply to the following cases:

- The lender/guarantor is a credit institution operating under the Law on Credit Institutions and does not directly or indirectly participate in the management, control of, or capital contribution to, the borrower.
- The borrowing and lending credit institutions are both subject to the management and control of another, common third party.
- The creditor or guarantor is an entity wholly owned by the State (100% of charter capital) whose function is the purchase, sale, or handling of debt (such as VAMC or DATC), and it does not participate in management, control, or capital contribution.

Question 9: What is the minimum ratio of appointed executive management members between two enterprises required to constitute a related party relationship?

Answer: A related party relationship is established where one enterprise appoints members of the executive management or supervisory board of another enterprise accounting for more than 50% of the total number of members of the management board; or where one appointed member has the authority to decide the financial policy or business operations of the second enterprise.

Question 10: Which family relationships, where the relevant individuals jointly manage an enterprise, give rise to a related party relationship?

Answer: Family relationships include spouses; parents, adoptive/step-parents and parents-in-law; children, adopted/stepchildren and children-in-law; siblings and siblings-in-law; grandparents; grandchildren; and paternal/maternal aunts, uncles, nieces and nephews.

Question 11: Within what percentile range is the standard arm's length range determined?

Answer: The standard arm's length range is the set of values from the 35th percentile to the 75th percentile. The representative median value is the 50th percentile.

Question 12: Which groups of methods for determining the price of related party transactions are accepted?

Answer: There are 3 main groups of methods:

- The method of comparing the price of the related party transaction with the price of an independent (arm's length) transaction (CUP).
- The method of comparing profit margins (comprising: the resale price method, the cost-plus method, and the comparable net profit margin method).
- The profit split method among related parties.

Question 13: Which types of intra-group service costs are commonly excluded by tax authorities when calculating tax?

Answer: These include:

- Services that solely benefit another related party.
- Services that directly benefit shareholders.
- Services for which fees have been duplicated/charged twice.
- Services that are, in substance, a benefit of group membership.
- The mark-up portion of a service fee charged by a related intermediary that does not, in fact, contribute or create any added value.

Question 14: What is the deductible loan interest expense cap applicable to an enterprise with related party transactions?

Answer: The total deductible loan interest expense (after offsetting deposit interest income and lending interest income) arising in the period for the taxpayer must not exceed 30% of EBITDA (total net profit from production and business activities plus net loan interest expense plus depreciation expense arising in the period).

Question 15: May loan interest expense exceeding the 30% EBITDA cap be carried forward, and if so, for what maximum period?

Answer: Any non-deductible excess interest may be carried forward for up to 05 years, starting from the following tax period, and deducted in subsequent periods where total interest expense is below the 30% EBITDA cap.

Question 16: Which types of borrowing are exempt from the 30% EBITDA cap on loan interest expense?

Answer: The loan interest cap does not apply to:

- Credit institutions operating under the Law on Credit Institutions; insurance business organizations operating under the Law on Insurance Business.
- ODA loans and concessional Government loans made on an on-lending basis (where the Government borrows and then re-lends the funds).
- Loans used to implement national target programs.
- Loans for investment in State social welfare policy projects (including resettlement housing, housing for workers and students, social housing, and other public welfare projects).

Question 17: What levels of documentation must be included in the set of Related Party Transaction Pricing Documentation that an enterprise is required to prepare?

Answer: The Related Party Transaction Pricing Documentation comprises 3 levels of documentation:

- The Local File.
- The Master File.
- The Country-by-Country Report (CbCR).

Question 18: How many days does an enterprise have to provide the Related Party Transaction Pricing Documentation upon request from the tax authority?

Answer: The enterprise must provide the documentation within a period not exceeding 30 working days from the date of receipt of the tax authority's written request. Where there is a legitimate reason, the enterprise may be granted one extension of not more than 15 working days.

Question 19: What is the minimum global consolidated revenue threshold that triggers a mandatory obligation to submit the CbCR in Vietnam?

Answer: An enterprise whose Ultimate Parent Company is located in Vietnam and whose global consolidated revenue in the financial year immediately preceding the reporting year is equivalent to EUR 750 million or more is required to prepare and submit the Country-by-Country Report (CbCR).

Question 20: What are the conditions for exemption from preparing Related Party Transaction Pricing Documentation based on the revenue threshold?

Answer: An enterprise is exempt from preparing Related Party Transaction Pricing Documentation if it simultaneously satisfies 3 criteria:

- Revenue below VND 500 billion.
- No revenue or expenses arising from the exploitation or use of intangible assets.
- A minimum EBIT margin on net revenue of 5% for distribution, 10% for manufacturing, or 15% for processing/assembly.

Question 21: How does Decree 255 provide for the principle of "substance over form" in the analysis of related party transactions?

Answer: Pursuant to Article 6.1, the substance of a related party transaction is assessed by comparing the legal contract/written agreement against the parties' actual conduct. Where the actual conduct differs from the written agreement, or where the transaction is not documented in a written agreement, the tax authority will determine the related party transaction based on its actual substance in order to determine the applicable tax obligation.

Question 22: When is an enterprise permitted to extend the scope of its comparability analysis by using data from countries within the region?

Answer: Under Article 9.1, for unique or highly specific related party transactions without domestic comparables, taxpayers may extend the comparability analysis to countries in the region with similar industry conditions and economic development.

Question 23: By how many financial years, at most, may the data of an independent comparable differ from the taxpayer's financial year?

Answer: Under Article 9.2, the data collection period may differ from the taxpayer's financial year by no more than one financial year.

Question 24: When conducting a product-price comparability analysis, which product characteristics must be reviewed and assessed for differences?

Answer: Pursuant to Article 10.2, the enterprise must analyze the following characteristics:
- *For tangible goods: physical characteristics, category, quality, trademark, reliability, availability, and volume of supply.*
- *For services: nature, scale, degree of complexity, level of specialization, and scope of supply.*
- *For intangible assets: form of transfer, type of asset, form of ownership, duration, degree of protection, and the ability to derive benefit from its use.*

Question 25: What core groups of content does a Functional Analysis (FAR) used to determine the comparability of a transaction include?

Answer: Pursuant to Article 10.3, the FAR analysis includes:
- Functions performed: R&D, self-directed manufacturing, assembly, contract processing, distribution, sales, marketing, advertising, transportation, support services...
- Assets employed: intangible assets (copyrights, trade secrets...) and tangible assets (factories, machinery...).
- Risks assumed: market risk, financial risk (exchange rate risk, bad debt risk), inventory risk, product risk...

Question 26: When purchasing used machinery or equipment from an offshore related party, what specific documentation must an enterprise retain to support its position?

Answer: Pursuant to Article 13.3(c), the enterprise must retain the original purchase invoice and supporting documents to demonstrate that the machinery or equipment was acquired at an arm's length price, with its value subsequently re-determined under the applicable fixed asset depreciation rules.

Question 27: For which specific cases is the application of the Profit Split Method mandatory?

Answer: Pursuant to Article 15.1, the Profit Split Method applies to unique, integrated, and closed-loop related party transactions, joint development of new products using proprietary technology, or proprietary value chains where transactions cannot be separately priced.

Question 28: Who bears the burden of proving the correctness of the chosen method for determining the price of a related party transaction?

Answer: Pursuant to Article 18.2(b), the taxpayer must demonstrate that the analysis, comparison, and selection of the pricing method were conducted in accordance with applicable law.

Question 29: In what order of priority does Decree 255 specifically require the use of comparable data sources?

Answer: Pursuant to Article 17.3, the mandatory order of priority is:
- Information and data publicly disclosed on securities markets or on goods/services exchanges.
- Commercial databases maintained by professional data providers.
- The tax authority's own tax administration database.

Question 30: In what order of geographic priority is the location of an independent comparable to be selected?

Answer: Pursuant to Article 17.4, the order of priority is, respectively:
- Internal comparables of the taxpayer.
- Comparables resident in the same country or territory as the taxpayer.
- Comparables located in countries within the region that have similar industry conditions and a similar level of economic development.

Question 31: With what tool does the Handbook recommend calculating the Standard Arm's Length Range (Percentile)?

Answer: Pursuant to Appendix V issued together with the Decree, the standard arm's length range and the median value are determined by using the PERCENTILE function directly in Microsoft Excel, based on the data set of profit margins of the selected independent comparables.

Question 32: In what circumstances is an enterprise fully exempt from both the pricing-declaration obligation (Sections III and IV of Appendix I) and the obligation to prepare Pricing Documentation?

Answer: Pursuant to Article 20.1, where the enterprise only enters into transactions with related parties that are corporate income tax payers in Vietnam, applying the same corporate income tax rate, and neither party enjoys any corporate income tax incentive during the tax period.

Question 33: Where an enterprise has entered into an Advance Pricing Agreement (APA), what documentation obligations does it have?

Answer: Pursuant to Article 20.2(b), the enterprise is exempt from preparing Related Party Transaction Pricing Documentation for transactions falling within the scope of the APA, but remains obligated to fully declare Appendix I and to submit the Annual Report on APA implementation as required.

Question 34: Where an enterprise operates across several different business segments but cannot separately account for the revenue/costs of each segment, how is the EBIT margin applied to assess exemption from the documentation requirement?

Answer: Pursuant to Article 20.2(c), where separate tracking and accounting is not possible, the enterprise must apply the net profit margin on net revenue of the segment with the highest margin among its business segments as the basis for assessing exemption from the documentation requirement.

Question 35: What is the nature and role of the "Master File"?

Answer: Pursuant to Article 4.12, the Master File is information regarding the global business operations of the multinational group and its policies on income allocation and the allocation of activities and functions within the group's value chain, serving as a basis for cross-border tax reconciliation.

Question 36: When is a taxpayer in Vietnam exempt from the obligation to submit the Country-by-Country Report (CbCR) in Vietnam, notwithstanding that the parent Group exceeds the revenue threshold?

Answer: Pursuant to Article 19.2(a), exemption from submitting the CbCR in Vietnam applies where the country of tax residence of the Ultimate Parent Company has an international agreement for the automatic exchange of CbCR information in effect with Vietnam as at the filing deadline, and the enterprise has duly submitted, by the applicable deadline, the Notification under Form No. 01/TB-BCLN.

Quesiton 37: In what format must the Country-by-Country Report (CbCR) be submitted?

Answer: Pursuant to Article 19.4, the Country-by-Country Report must be submitted in encrypted XML format and transmitted via the tax authority's electronic system.

Question 38: What confidentiality obligations does the tax authority have with respect to the pricing information provided by an enterprise?

Answer: Pursuant to Article 21.4, the tax authority is responsible for maintaining the confidentiality of information provided by the taxpayer in connection with the determination of the price of related party transactions, and must not use such information to adjust or impose a price on any other third party.

Question 39: What is the coordinating role of the State Bank of Vietnam in the administration of related party transactions?

Answer: Pursuant to Article 22.2, the State Bank of Vietnam is responsible for coordinating and providing information and data on foreign loans and repayments of specific enterprises with related party transactions, and for coordinating the provision of information on account balances and international cash flows at the request of the tax authority.

Question 40: If an enterprise uses inaccurate comparable information or fails to provide sufficient Pricing Documentation, what powers does the tax authority have?

Answer: Pursuant to Article 21.3, the tax authority has full authority to impose a price, profit margin, or profit-allocation ratio, and to assess the corporate income tax taxable income of the enterprise.

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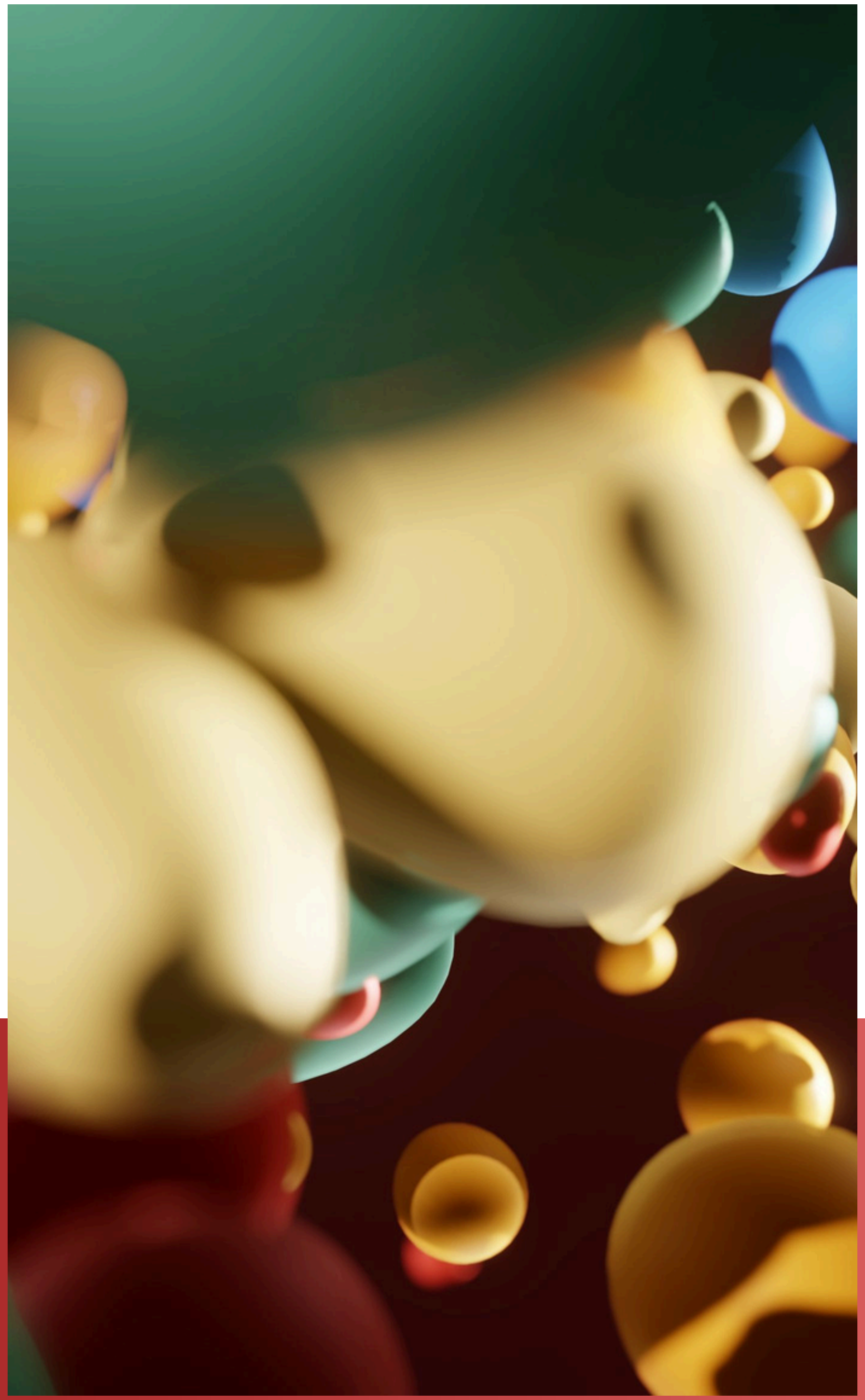

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