



Key changes in labour and compulsory insurance regulations from 2016 – Impact on employment costs

Tax Alert - Tax and Corporate Services

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2016 is a pivotal year with considerable changes in labour and compulsory insurance regulations in Vietnam, with various new policies introduced and effective from 1 January 2016 or later this year. The new policies may lead to a significant increase in your company's employment costs. As such, how to manage employment costs efficiently from 2016 and beyond should therefore be amongst the top priorities on the business agenda of companies. In this Tax Alert, we outline the key changes that will impact employment costs.

1. Increase in base for Social Insurance/Health Insurance/Unemployment Insurance contributions

The Law on Social Insurance No 58/2014/QH-13 introduced a new basis to calculate Social/Health/Unemployment insurance contributions from January 2016. Detailed guidance is provided under Decree 115/2015/ND-CP and Circular 59/2015/TT-BLĐTBXH.

Particularly, before 1 January 2016, the base for Social/Health/Unemployment Insurance contribution only included the basic salary/wage regulated in the labour contract.

From 1 January 2016, the base for Social/Health/Unemployment Insurance contribution will consist of the following components:

- Salary;
- Salary related allowances (e.g. attraction allowance, regional allowance)

From 1 January 2018, in addition to the salary and salary related allowances, the base will also include other additional payments in the nature of regular payment (e.g. children education allowance, sale salary).

2. Increase in the regional minimum wage and base salary further adds to increasing the base for Social/Health and Unemployment Insurance contributions

As an usual practice, the regional minimum wage is adjusted on an annual basis. From 1 January 2016, according to Decree 122/2015/ND-CP, the regional minimum wage is increased by 12.4 per cent on average. As the regional minimum wage serves as the basis to determine the capped salary base for Unemployment Insurance contribution, such increase will result in the increase of the capped salary base (to a maximum of VND70 million compared to VND62 million in 2015).

In addition, from 1 May 2016, the monthly base salary will also increase from VND1,150,000 to VND1,210,000, which means an increase in the capped salary base for Social and Health Insurance contribution (from VND23 million to VND24.2 million)

3. Other noteworthy update

Besides the above mentioned regulatory changes impacting employment costs, from 2016, employers should pay special attention to new guidance of the Government on stricter enforcement of collection of social insurance and trade union fees

Under Decree 88/2015/ND-CP, a penalty of up to VND75 million shall be imposed on employers for failure to pay trade union fees properly. In addition to the penalty, the employers will be required to pay trade union fees with an interest charge.

Regarding the failure by employers to pay social insurance contributions, besides an interest charge, this is the first time the criminal act handling is introduced for such kind of violation under the Law on Criminal No 100/2015/QH13. Effective from July 2016, fraud and evasion of Social, Health and Unemployment Insurance shall be subject to severe penalties from VND20 million to VND3 billion, and/or imprisonment.

Given the significant changes in labour and compulsory insurance regulations from 1 January 2016, it is important to manage employment costs efficiently, seize opportunities for employment cost planning while remaining compliant with regulations. Contact your KPMG Global Mobility Service (GMS) team for support.

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