



## LEGAL UPDATE

### TAX COMPLIANCE FOR ENTERPRISES HAVING RELATED-PARTY TRANSACTIONS

On 10 February 2025, the Government issued Decree No. 20/2025/ND-CP (“**Decree 20**”) amending Decree No. 132/2020/ND-CP dated 05 November 2020 (“**Decree 132**”) guiding tax compliance for enterprises having related-party transactions. Decree 20 takes effect from 27 March 2025 and applies the tax year 2024.

This legal update outlines the key changes introduced by Decree 20.

#### 1. Amended definition of related-party relationship

Decree 20 tightens regulations on corporate guarantees and internal lending provided in Article 5.2(d) of Decree 138. Previously, the rules focused only on loan-to-equity ratios and medium-to-long-term debt of the borrower. However, Decree 20 enhances this criterion by considering the total outstanding debt among related parties. This means enterprises must evaluate all internal loans collectively rather than individually to determine their inclusion under related-party transaction regulations.

Decree 20 introduces important exemptions to ease restrictions on credit institutions. Lenders, guarantors, and credit institutions operating under the Law on Credit Institutions will not be considered related parties unless they (i) engage in “*management, control, capital contribution, or investment*” in the borrowing entity, or (ii) are subject to the same “*management, control, capital contribution, or investment*” by another party as the borrowing entity.

Due to the change in the definition of related party, specifically for credit institutions, there may be instances where a company borrows from a credit institution that is considered a related party before 2024 but no longer a related party from 2024 onwards. In such cases, Decree 20 provides transitional guidelines on the deductibility of non-interest expenses incurred before 2024:

- For companies that do not have related relationship and related-party transactions, the non-deductible

interest expenses as of the end of 2023 will be allocated equally to the respective remaining years for claiming deduction in such years.

- For companies that have related relationships and related-party transactions, the pre-2024 non-deductible interest expenses will be carried forward to the subsequent tax periods as prescribed in Decree 132.

#### 2. Integrating banks into the related-party network

Decree 20 expands the definition of related parties to align with changes in the Law on Credit Institutions, officially incorporating credit institutions into the related-party network when they have relationships with subsidiaries, controlled companies, or affiliated entities.

#### 3. Additional responsibilities for the State Bank

Under Decree 20, the State Bank of Vietnam (“**SBV**”) has been assigned additional responsibilities to provide upon request relevant information on foreign loans, including the principal, interest, and payment schedule. This highlights the increased coordination between regulatory agencies in overseeing tax management for related-party transactions.

These changes reflect Vietnam’s commitment to align with international standards and enhancing transfer pricing regulations. Taxpayers are encouraged to thoroughly review the new regulations and evaluate their potential impact on business operations and internal controls.

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