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## **Vietnam**

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### **Vietnam Removes Value Added Tax on Animal Feed Inputs and Products**

**Report Categories:**

Trade Policy Monitoring

Grain and Feed

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**Report Highlights:**

This report provides a brief on the Vietnamese Government's elimination of the Value Added Tax (VAT) for animal feed products. On November 26, 2014, the Vietnamese National Assembly (NA) approved Law 71/2014/QH13, which eliminates the VAT for fertilizer, offshore fishing boats, and animal feed products. Law 71 applies to both imported and domestically produced animal feed products.

Although policy makers thought that removing the VAT would help reduce the cost of animal feed, some animal feed producers report that the VAT repeal on feed inputs and finished feed actually results in lower profit margins as firms are no longer able to seek a VAT rebate for the VAT associated with various production inputs, including water, agricultural services, and facility rental costs. Firms are considering price increases to offset the decline in profits.

## Summary:

On November 26, 2014 Vietnam National Assembly (NA) approved Law 71/2014/QH13 regarding the amendment and supplementation of some additional provisions of the Taxation Laws including the Law on Taxation of Company and Personal Income; the Value Added Tax Law; and the Law on Taxation of Natural Resources.

The amendments to the Value Added Tax Law are stated in Article 3 of Law 71/2014. Accordingly, effective from January 1, 2015, products including fertilizer, offshore fishing boats, and animal feed products, are not subject to the Value Added Tax (VAT) that previously was applied for both imported and domestically produced products. Law 71/2014 in Vietnamese can be downloaded at:

[www.chinhphu.vn](http://www.chinhphu.vn).

To implement the revised Law, Prime Minister Nguyen Tan Dung signed Decree 12/2015/ND-CP on February 12, 2015 promulgating Regulations on the Implementation of some Revised Provisions of Laws on Taxations; and the Amendment and Supplement of some Provisions of the Decrees on Taxation. Clause 1, Article 3 of Decree 12/2015 outlines the types of animal feed subject to the exemption of VAT. Raw or processed feed products such as bran, plant meals, fish/shrimp/bone meals, and other feed ingredients are not subject to VAT. Some of the major U.S. agricultural exports no longer subject to the VAT upon entry into Vietnam are corn, distillers dried grains, soybeans, soybean meal, hays and grasses, other protein meals, and other intermediate and compound feed products.

On January 16, 2015, the Vietnam Animal Feed Association sent a letter requesting the Ministry of Finance to provide detailed guidance regarding the implementation of VAT provision applied for animal feed. On January 20, 2015, in response to the request, the General Department of Taxation (GDT), issued official letter 222/TCT-CS on the detail of animal products eligible for VAT exemption. Accordingly, the GDT requested Provincial or City Tax Departments to provide animal feed companies instructions on issuing invoices and declarations of VAT in compliance with the regulation. As stated in GDT's letter, the definition of animal products subject to exemption from VAT are regulated in Clause 1, Article 3 of Decree 8/2010/ND-CP, dated February 5, 2010, regarding animal feed management. Decree 8/2010 states *“animal feed are products, that animals eat and drink, under the form of fresh, raw, or already processed, preserved, including: animal feed material, compound feed, concentrated feed, supplemental feed, feed additives, premix, feed substance, and feed carrier.”*

In addition, feed products subject to VAT exemption must be on the list of animal feed products allowed for circulation in Vietnam as regulated in Article 5 of the Ministry of Agriculture and Rural Development (MARD)'s Circular 50/2014/TT-BNNPTNT, dated December 24, 2014, which amends Article 5 of MARD's Circular 66/2011/TT-BNNPTNT, dated October 10, 2011, as follows: *“Article 5: Animal feeds permitted for sale in Vietnam are animal feeds certified by the Directorate of Fisheries or the Department of Livestock Production as having met conditions for sale in Vietnam after the Minister of Agriculture and Rural Development grants an approval. On a monthly basis, the Directorate of Fisheries and the Department of Livestock Production are responsible to collate and publish a list of animal feeds permitted for sale in Vietnam on the portal of the Directorate of Fisheries, the Department of Livestock Production and the Ministry of Agriculture and Rural Development so that relevant organizations, individuals access and implement...).*

Although policy makers thought that removing VAT would help reduce the cost of animal feed, some animal feed producers report that the VAT repeal on feed inputs and finished feed actually results in lower profit margins as firms are not able to seek a VAT rebate for the VAT associated with various production inputs, including water, agricultural services, and facility rental costs.

According to an official estimate, the cost of animal feed materials such as soybean meal, corn, rice, and rice bran is about 40-50% of the total animal feed production cost. The remaining portion of the cost consists of water, agricultural services, and facility rental costs, which is still considered part of the production cost. Before January 1, 2015, if the total VAT of input items is greater than the total VAT collected from selling animal feed, the animal feed mill was eligible for getting compensation from the Government in the form of a VAT rebate. However, due to the new VAT policy, animal feed mills are not able to be reimbursed for the VAT of non-animal feed materials used for animal feed production. This has led to a reduction in the profit margin of animal feed manufacturers. As consequence, animal feed mills may increase their selling price to compensate for the offset in profit margin.

### **Background:**

Vietnam's first Law on Value Added Tax was approved by the National Assembly (NA) in May 10, 1997 and the VAT for animal feed products was set at 5%. Some agricultural products including un-processed or semi-processed products of plants, or animal husbandry or fisheries produced and sold by individuals were exempted from VAT.

The VAT Law was revised in 2003 (Law 7/2003/QH11) in that breeding plants and animals were added to the list of products exempted from VAT.

In 2008, the 2003 VAT Law was amended by Law 13/2008/QH12. In Law 13/2008 some agricultural services such as irrigation, cleaning of irrigation canals, and harvesting services were added to the list of products subject to VAT exemption.