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# Determining the taxable income of business households under Vietnamese personal income tax law: Issues for improvement

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**Abstract**
This paper analyzes current regulations regarding the determination of taxable income for business households, in the context of a shift in the tax regime starting in 2026, moving decisively from a revenue-based method to determining income based on revenue minus expenses in cases prescribed by law. Based on clarifying the conditions and categories of deductible expenses, the paper focuses on evaluating several outstanding legal issues, including: criteria for determining business-related expenses; requirements regarding invoices, supporting documents, and non-cash payments; labor costs for household members; asset depreciation and the mixing business and personal expenses; as well as mechanisms for handling inventory and transitional assets. Accordingly, the paper proposes perfecting the legal system by clarifying criteria for identifying expenses, diversifying methods of substantiation, establishing a reasonable allocation mechanism, and ensuring that taxable income more accurately reflects the actual income of business households.

**Keywords:** Personal income tax, taxable income, business households, deductible expenses, revenue-based taxation, Vietnam, tax law, invoices and supporting documents, asset depreciation, tax compliance

## Introduction
Starting in 2026, the tax calculation mechanism for business households and business individuals in Vietnam will undergo significant changes. Resolution No. 198/2025 [13]/QH15 terminates the lump-sum tax method effective from January 1, 2026 [4]; the Law on Personal Income Tax No. 109/2025 [11]/QH15, as amended and supplemented in 2026 [4], along with guidance documents on shifting the focus to a mechanism for declaring and determining tax obligations based on actual revenue and income. In certain cases, taxable income is determined by the following formula:

Taxable income = Revenue – Expenses related to production and business activities.

This approach is likely to more accurately reflect business performance and tax-paying capacity compared to methods primarily based on revenue-based rates, while simultaneously increasing requirements regarding record-keeping, invoicing, documentation, and business operational transparency (Lu Thi Thanh Thuy, 2025; Nguyen Thi Thanh Thuy, 2026) [6, 8].
However, when expenses become a direct component of the tax base, the key issue is determining which expenses are deductible and how those expenses are substantiated. Decree No. 68/2026 [2]/ND-CP requires that expenses be actually incurred and related to production and business activities, be supported by valid invoices and documents, and in certain cases, meet the conditions for non-cash payment (Government, 2026a) [2].
Applying these conditions to business households presents several challenges, as the boundary between business and personal assets is not always clear; family labor is common; many expenses serve both business and personal needs; and substantiating expenses in small-scale transactions can also create difficulties. These characteristics directly affect the accuracy and fairness of the tax base.
On that basis, the paper analyzes the adequacy, clarity, and appropriateness of current regulations regarding deductible expenses for business households, thereby identifying shortcomings in applying and proposing directions for legal refinement.

## Current legal regulations on determining the taxable income of business households.
### 1. Change in the method of determining taxable income
Prior to 2026, personal income tax for business households and business individuals is primarily determined based on revenue and tax rates corresponding to specific sectors and business lines. According to Circular No. 40/2021 [1]/TT-BTC, the tax payable depends on taxable revenue and does not directly take into account actual expenses. This calculation method is simple and suitable for small-scale business operations; however, it has the limitation that revenue does not fully reflect business performance; households with the same revenue but different cost structures and profit margins may still be subject to tax determined by the same rate (Nguyen Cong Quoc Dung, 2022) [7].
The Law on Personal Income Tax No. 109/2025 [11]/QH15 has expanded the method for calculating tax on income. Pursuant to Article 7, taxable income is determined by the revenue from the sale of goods and services minus expenses related to production and business activities during the tax period. Following the adjustment of the tax-exemption revenue threshold to VND 1 billion per year under Decree No. 141/2026 [2]/NĐ-CP, business individuals with annual revenue between VND 1 billion and VND 3 billion may choose between the revenue-based method and the income-based method; however, the income-based method applies if revenue exceeds VND 3 billion. The corresponding tax rates

are 15%, 17%, and 20%, based on statutory revenue thresholds (National Assembly, 2025a; Government, 2026a, 2026b) [2, 11].

A key new feature is that expenses become a direct component of the tax base. The revenue-minus-expenses method is capable of more accurately reflecting business results and tax-paying capacity compared to the calculation method based primarily on revenue. However, the effectiveness of this mechanism depends on the ability to accurately identify and verify expenses, while also increasing requirements regarding record-keeping, documentation, and compliance for business households (Nguyen Thi Thanh Thuy, 2026) [8].

**2. Conditions for determining deductible expenses**

Article 6 of Decree No. 68/2026 [2]/ND-CP stipulates that deductible expenses must meet three basic conditions: arising in reality and relating to production and business activities; being supported by valid invoices and documents; and for individual payments of VND 5 million or more, there must be documentation of non-cash payment (Government, 2026a) [2].

Deductible expenses primarily include costs for raw materials, supplies, fuel, and merchandise; wages, salaries, and employee-related expenses; fixed asset depreciation; costs for electricity, water, telecommunications, transportation, asset leasing and repairs; loan interest; and other expenses directly serving business operations. However, in principle, the wages of the individual business owner or members of a business household are not deductible, with the exception of certain mandatory insurance contributions; furthermore, assets that do not serve business operations or have been fully depreciated may not continue to be included in expenses (Government, 2026) [2].

Thus, current legislation has established a relatively comprehensive framework for determining taxable income based on revenue and expenses. The remaining issues primarily concern the identification, substantiation, and allocation of costs in specific scenarios faced by business households, particularly regarding family labor, shared assets, mixed costs, and expenditures that are difficult to fully documents in accordance with requirements.

**Legal issues regarding the determination of deductible expenses for business households**

**1. The criterion "related to production and business activities" lacks specificity.**

Article 6 of Decree No. 68/2026 [2]/ND-CP stipulates that deductible expenses must be actually incurred and "related to production and business activities," whereas for certain other expenses, the criterion used is "directly serving production and business activities" (Government, 2026a) [2]. This wording does not clarify the necessary degree of connection between the expense and the income-generating activity.

In reality, many expenses such as phones, computers, vehicles, hospitality expense or property repairs do not directly generate revenue but still serve business activities. The determination becomes increasingly complex when assets or services serve both business purposes and personal needs. Studies by Sakai (2013) and Libson (2015) [5, 14] also indicate that the boundary between business and personal expenses needs to be determined based on the substantive relationship to income-generating activities, particularly regarding expenses with mixed purposes.

Therefore, the "relevance" criterion should not be interpreted to mean that an expense must directly generate a specific item of revenue. It is more reasonable to consider whether the expense has an objective relationship to the establishment, maintenance, or securing of business operations. Tax authorities may verify the authenticity and purpose of an expense but should not replace business operators to assess the necessity or effectiveness of their spending decisions.

Under the Law on Tax Administration No. 108/2025 [12]/QH15, taxpayers are responsible for making truthful declarations and providing documents related to tax obligations (National Assembly, 2025b) [11]. Therefore, the law needs to specify criteria ensuring that deductible expenses are those actually incurred, reasonably related to income-generating activities, and verifiable through appropriate evidence. For mixed expenses, allocation based on actual usage for business operations should be permitted.

**2. Invoices, supporting documents, and conditions for non-cash payments**

Article 6 of Decree No. 68/2026 [2]/ND-CP requires that deductible expenses be supported by lawful invoices and documents; for payments of VND 5 million or more, non-cash payment documentation is required (Government, 2026a) [2]. This regulation enhances transparency and expenses control, but may give rise to the difference between actual expenses and those recognized for tax purposes.

Difficulties often arise in transactions involving small-scale producers, seasonal workers, small-scale transport services, or the leasing of assets from individuals. These may be actual business-related expenses, but they are not deductible without appropriate documentation. Similarly, the 5-million-dong threshold for cashless payments helps control cash flows but also increases compliance requirements for business households, particularly in small-scale transactions (Tax Department, 2026) [4].

Current regulations also need to clarify how to handle cases where a transaction is split into multiple payments below the threshold. Relying solely on individual payments could lead to the splitting of transactions to circumvent requirements; conversely, if payments are aggregated, clear criteria must be established to identify a single, unified transaction.

A noteworthy issue is that an expense, which is real and incurred for business purposes but fails to meet all formal requirements, may be entirely disallowed, resulting in a taxable income that exceeds actual economic income. Therefore, requirements regarding invoices, supporting documents, and non-cash payments should be maintained but not treated as absolute. For certain specific transactions, the use of contracts, detailed statements, bank documents, or electronic data as supplementary evidence may be permitted; at the same time, the handling of split transactions and the consequences of failing to meet formal requirements must be clearly stipulated.

**3. Labor costs of household members**

Family labor is a common characteristic of business households, where members can directly participate in management, sales, production, delivery, or accounting. Pursuant to Point c, Clause 2, Article 6 of Decree No.

68/2026 [2]/NĐ-CP, salaries, wages, and salary-related allowances for business individual, business individual groups, and members of business households are not included in deductible expenses, with the exception of mandatory insurance contributions as prescribed (Government, 2026a) [2].

This regulation aims to limit converting a portion of business profits into wages within the family in order to reduce taxable income. The OECD (2009) also notes that the allocation of income between business profits and income from labor of business owners or individuals closely connected to business units can create incentives to adjust the form of income in order to reduce tax liabilities.

However, excluding the entire wages of household members may not fully reflect the actual economic costs. If a member works regularly and takes on some tasks of business household, like a true outsourced employee, then this labor essentially generates a cost for business operations. When an expense is not recognized, taxable income may exceed actual economic income, while also creating a discrepancy in the treatment of the same type of labor cost between household members and external employees.

Therefore, it is necessary to strike a balance between the requirement to prevent income shifting and the principle of accurately reflecting labor costs. Consideration may be given to allowing the deduction of wages paid to household members, provided there is proof of actual labor performed, the nature of the work, and a market-appropriate pay rate, along with payment documentation and full compliance with statutory tax and insurance obligations. This approach is better suited to the specific characteristics of business households and helps ensure reasonableness and fairness in determining taxable income.

**4. Asset depreciation and the mixed business-personal expenses**

Decree No. 68/2026 [2]/ND-CP allows the depreciation of fixed assets used for production and business activities to be included in deductible expenses; the depreciation amount is determined in accordance with the regulations applicable to enterprises. At the same time, outsourced service costs such as electricity, water, telephone, internet, transportation, asset leasing, repairs, and maintenance, are also recognized if they meet statutory requirements. However, the Decree excludes depreciation expenses for assets not used for business operations, expenses for personal or family needs, and certain assets registered for ownership or use in the name of an individual (Government, 2026a) [2].

This regulation aligns with the principle of deducting only those expenses incurred in generating income; however, its application to business households may present challenges, as business and personal assets are often not entirely separate. A home can simultaneously serve as a place of business; a vehicle may be used for both deliveries and personal family needs; and utilities such as electricity, water, and internet, as well as phones or computers, can also be used for both purposes. In these cases, classifying the entire expenses as either a business expense or a personal expense may not accurately reflect the economic substance of the transaction.

Decree No. 68/2026 [2]/NĐ-CP requires business individuals to separately track expenses related to business operations and those serving personal or family needs, yet it has not established a common method for allocating the mixed expenses. This is a noteworthy point, as the lack of uniform criteria can lead to differing determinations between taxpayers and tax authorities.

Therefore, the law should incorporate a principle for allocating costs based on the actual level of usage for business activities. Depending on the specific type of asset or service, verifiable bases may be used such as the ratio of floor area for properties used for both residential and business purposes; mileage or duration of use for vehicles; consumption levels for electricity and water; or actual usage rates for telephone, internet, and electronic devices. This approach is better suited to the specific nature of business households, while simultaneously limiting both the inclusion of personal expenses as deductible costs and the disallowance of actual business-related expenses.

**5. Inventory and transitional costs**

The adoption of the method for determining taxable income based on revenue minus expenses, effective from 2026, necessitates addressing inventory, machinery, and equipment acquired during the preceding period. Decree No. 68/2026 [2]/ND-CP requires business households and business individuals falling under statutory provisions to determine and record the value of these assets as of December 31, 2025 [11], to serve as the basis for determining deductible expenses for the 2026 tax year (Government, 2026) [2].

This transitional provision ensures that costs incurred prior to 2026 continue to be reflected in the tax base. However, difficulties may arise regarding inventory or assets acquired during the period when the business household had not yet fully implemented the accounting regime, resulting in a lack of invoices and supporting documents or difficulty in determining the original cost. Although Circular No. 88/2021 [1]/TT-BTC stipulates a specific accounting regime for business households and individuals, the actual level of record-keeping and document retention may vary (Ministry of Finance, 2021) [1].

Relying solely on self-declared values creates a risk of inflated inventory or asset valuations intended to increase deductible expenses; conversely, an absolute requirement for documentation could result in the exclusion of actual expenses. Therefore, it is necessary to permit the combined use of invoices, accounting records, contracts, payment vouchers, detailed schedules, and other verifiable data, while clearly stipulating the method for determining value in the absence of original documents.

In general, the limitations of current regulations do not stem from a lack of a list of deductible expenses, but rather from identification criteria, allocation methods, and substantiation mechanisms that are not truly suited to the specific characteristics of business households. This is an issue that requires further refinement to ensure effective tax administration while more accurately reflecting actual income.

**Recommendations for improving the legal framework**

**1. Specifying the criteria for determining expenses related to business operations.**

The law needs to clarify the concepts of “related to production and business activities” and “directly serving production and business activities”. Accordingly, an expense should be deductible when three conditions are met: actually incurred; reasonably related to revenue-generating or revenue-maintaining activities; and verifiable through appropriate evidence (Government, 2026a) [2].

Tax authorities should focus on verifying the authenticity and business purpose of expenses rather than scrutinizing the "necessity" or effectiveness of spending decisions, as these matters primarily fall within the scope of business autonomy.

### 2. Perfecting the mechanism for substantiating expenses

The mechanism for substantiating expenses needs to be better aligned with the specific characteristics of business households. They can be divided into three groups: expenses requiring invoices; expenses substantiated by contracts, itemized lists, bank documents, or electronic data; and some small, regular expenses can apply reasonable norms or rates (Ministry of Finance, 2021) [1].

This approach helps avoid the total dis-allowance of actual costs solely due to the absence of a formal requirement, while still ensuring the tax authority's ability to conduct audits.

### 3. Completing regulations on family labor

Consideration may be given to allowing the deduction of wages paid to household members, if they can prove that there is actual labor participation and the nature of the work are demonstrated, the remuneration is consistent with market rates, payment documentation exists, and all statutory tax and insurance obligations are fully met. This mechanism helps strike a balance between the need to prevent income shifting within the family and the accurate reflection of actual labor costs (OECD, 2009).

### 4. Developing a mechanism for allocating the mixed expenses.

For assets or services used for both business and personal purposes, the following principle should be applied:

Deductible expenses = Total expenses × Proportion of use for business activities.

The rate may be determined based on usable area, time, distance traveled, consumption volume, or actual usage level. For small households, default allocation ratios for certain common expenses could be considered to reduce compliance costs (OECD, 2015).

### 5. Finalizing transitional arrangements for inventory and assets.

For inventory and assets acquired prior to the implementation of the new mechanism, the use of alternative evidence—such as accounting records, contracts, bank documents, electronic data, schedules, or vendor confirmations—should be permitted when original documentation is incomplete.

At the same time, it is necessary to manage risks associated with cases where the declared value of inventory or assets is unusually high or inconsistent with the scale of business operations. This approach ensures the recording of actual costs while limiting the practice of inflating costs.

In general, the approach to refinement should not focus on expanding the list of deductible expenses, but rather on clarifying identification criteria, substantiation mechanisms, and expense apportionment methods. This is a prerequisite for ensuring that taxable income more accurately reflects actual income and for reducing disputes during implementation.

## Conclusion

Shifting to determining taxable income based on revenue minus expenses represents a significant step forward in tax policy for business households. Compared to the method primarily based on revenue-based rates, this approach is capable of more accurately reflecting actual business performance and tax-paying capacity of business operators.

However, the effectiveness of the new mechanism depends directly on how the law defines and controls deductible expenses. Analysis reveals that while current regulations have established a relatively comprehensive framework regarding the conditions and categories of recognized expenses, certain issues still require further refinement; specifically, the criteria for determining business-related expenses; requirements concerning invoices, supporting documents, and non-cash payments; labor costs associated with household members; cost allocation for shared assets; and mechanisms for handling inventory and assets during transitional periods.

Therefore, efforts to perfect the legal framework should focus on clarifying criteria for identifying expenses, diversifying methods of substantiation, establishing reasonable allocation mechanisms for mixed expenses, and ensuring a balance between the need to prevent loss of tax revenue and the accurate reflection of business households' actual expenses. The clearer, more feasible, and better aligned with the specific organizational nature of business households the regulations are, the more effectively they can minimize disputes, reduce compliance costs, and enhance fairness in the fulfillment of tax obligations.

It can be affirmed that the shift from taxing primarily based on revenue to taxing based on income will only truly achieve the goal of fairness if the law establishes a mechanism for determining expenses that aligns with the economic nature of transactions and the specific operational characteristics of business households.

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