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VIETNAM EMPLOYMENT LAW GUIDE

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About this guide

Employment Law in Vietnam

Vietnam has emerged as one of the region's most attractive investment destinations, supported by sustained economic growth and an increasingly dynamic labour market. The workforce is young, adaptable, and increasingly skilled.

Against this backdrop, understanding Vietnam's employment law framework is essential for employers seeking to recruit, manage, and retain employees while ensuring compliance with applicable legal requirements. Vietnam's employment regime is primarily governed by the Labour Code No. 45/2019/QH14 issued by the National Assembly on 20 November 2019 (the Labour Code) and its implementing regulations, which establish the legal rights and obligations of employers and employees throughout the employment relationship.

This guide provides a high-level overview of the key employment law matters in Vietnam and explains the main legal and practical issues that employers should consider under current Vietnamese law.

Contents

SECTION ONE

EMPLOYMENT RELATIONSHIP & CONTRACTS

1.1 Employment Relationship

Under the Labour Code, an employment relationship is established when an individual (the “**employee**”), whether a Vietnamese or foreign national working in Vietnam, performs paid work for another enterprise, organisation, or individual (the “**employer**”) that has the authority to manage, direct, and supervise the work performed. Importantly, the existence of an employment relationship is determined based on the substance of the arrangement rather than the title or form of the agreement. An agreement under a different name will still be treated as an employment contract if it contains terms on paid work, wages, and management or supervision by one party over the other.

The Labour Code adopts a broad definition of an “employer” encompassing any enterprise, organisation, or individual that hires an employee under an agreement. A foreign company without a local presence in Vietnam may still be regarded as an employer in respect of its employment relationship with Vietnamese employees and depending on the specific circumstances, such an arrangement may be subject to the mandatory requirements of Vietnamese labour law.

1.2 Employment Contract

The Labour Code requires the employer to enter into an employment contract in writing with an employee before hiring. An oral employment contract is only permissible where the employment term is less than one month, except in certain cases where a written contract is mandatory (e.g., contracts with employees under 15 years of age, domestic workers, and groups of employees engaged for seasonal work or specific tasks with a term of less than 12 months).

Contract form

An employment contract may be concluded in paper or electronic form. An electronic contract must meet the requirements under Decree No. 337/2025/ND-CP, including those on e-signatures, technical standards, legal obligations, and data security, to be legally valid and enforceable. Existing paper employment contracts may be converted into electronic form if the electronic version accurately reproduces the original and is digitally signed or electronically certified by both parties.

Contract types

Vietnamese law recognises two types of employment contracts:

(i) Definite-term employment contract: These contracts have a fixed duration of up to 36 months and may be used for both Vietnamese and foreign employees. For foreign employees, however, the contract term cannot exceed the validity period of their work permit and cannot be longer than 24 months.

If a definite-term contract expires and the employee continues working, the parties must enter into a new contract within 30 days. During this period, the rights, obligations, and benefits under the expired contract continue to apply. If no new contract is signed within 30 days, the contract automatically converts into an indefinite-term employment contract.

While the Labour Code provides the same general framework for both Vietnamese and foreign employees, several practical distinctions apply.

Issue	Foreign employees	Vietnamese employees
Term of contract	Up to 24 months (limited by work permit validity)	Up to 36 months
Renewal of contract	Multiple renewals permitted	Single renewal allowed (max. 36 months); must then convert to indefinite-term if employment continues
Work permit	Mandatory	Not applicable
Currency of Salary	VND or foreign currency, as agreed by parties	VND
Compulsory insurance contributions	• Social insurance • Health insurance	• Social insurance • Health insurance • Unemployment insurance
Effectiveness of the contract	Requires full signatures and valid work permit	Requires full signatures

(ii) Indefinite-term employment contract: These contracts do not specify a fixed term or termination date and are available only to Vietnamese employees.

Mandatory contents

An employment contract, whether definite or indefinite, must include the mandatory contents prescribed by the Labour Code, such as:

- Details of the employer and employee;
- Job description and workplace, contract term (where applicable), working hours and rest periods;
- Salary, payment method, allowances, and other benefits, salary review and promotion mechanisms;
- Occupational safety and hygiene, training provisions; and
- Participation in compulsory social, health, and unemployment insurance (as applicable).

In addition to these statutory requirements, parties may include supplementary provisions tailored to their relationship, such as confidentiality obligations, protection of trade secrets, and ownership of intellectual property created during employment. All additional terms must comply with the Labour Code and other relevant laws of Vietnam.

Contract amendment

Any amendment to an employment contract requires the mutual agreement of both parties. Provisions granting the employer unilateral rights to terminate or amend the terms of employment are generally unenforceable under Vietnamese law.

SECTION TWO

FOREIGN EMPLOYEES & TRADE UNIONS

3.1 Employment of Foreign Employees

Vietnamese law allows companies to hire foreign nationals, though such recruitment is generally restricted to roles requiring management, executive, or specialised expertise that cannot be adequately filled by Vietnamese workers.

As a general rule, foreign employees must obtain a work permit before commencing employment in Vietnam. However, certain categories of foreign nationals are exempted from this requirement under the Labour Code and Decree No. 219/2025/ND-CP. Key exemptions include qualifying foreign investors and capital-contributing members, and eligible intra-corporate transferees.[1] In exempted cases, the employer must obtain a Confirmation of Work Permit Exemption issued by the competent authority. This confirmation is valid for a maximum period of two years.

Work permits are issued by the People's Committee of the province where the foreign employee will work. They are valid for up to 24 months and may be renewed once for an additional period of up to 24 months. The renewal application must be submitted while the work permit is still valid, specifically, between 45 days and 10 days before it expires. After the renewed work permit expires, the employer may apply for a new work permit if the employee is to continue working.

Each work permit is specific to the sponsoring employer and permits the foreign national to work only for that employer.

Once a foreign employee has obtained a work permit or Confirmation of Work Permit Exemption, they may apply for a temporary residence card. This card permits the holder to reside in Vietnam without the need for a separate visa during its validity period, which is typically valid for up to two years.

3.2 Trade Union

Under the Labour Code, a trade union is a voluntary organisation established by employees to represent and protect their lawful rights and interests in employment relationships through collective bargaining and other mechanisms prescribed by labour laws. A trade union may take the form of either an enterprise-level trade union or an employees' organisation at the enterprise.

[1] Article 7 of Decree No. 219/2025/ND-CP

Enterprise-level trade union

The enterprise-level trade union is the most common form in Vietnam and is part of the Vietnam Trade Union system. Its establishment, membership, and operations are governed by the Law on Trade Unions and the Charter of the Vietnam Trade Union. It may be established if at least five employees voluntarily apply to join the Vietnam Trade Union. Its main functions include representing employees' rights and interests, participating in labour relations, monitoring employers' compliance with labour laws, and promoting employee welfare.

Employers are required to make a monthly trade union contribution equal to 2% of the payroll used as the basis for compulsory social insurance contributions, regardless of whether an enterprise-level trade union has been established.

Employees' organisation at the enterprise

By contrast, an employees' organisation at the enterprise is an independent representative body outside the Vietnam Trade Union system. It operates on a voluntary, self-managed, democratic, and transparent basis and is legally recognised only after registration with the competent authority. Although recognised under the Labour Code, the legal framework for its establishment and operation remains underdeveloped. As a result, such organisations are uncommon in practice, and enterprise-level trade unions remain the predominant form of employee representation in Vietnam.

5+	2%	24mo
Employees required to establish an enterprise-level trade union	Monthly trade union contribution on compulsory-insurance	Maximum initial work permit validity for foreign employees

SECTION THREE

TERMINATION, RETRENCHMENT & DISCIPLINE

4.1 Unilateral Termination

The Labour Code provides an exhaustive list of grounds for employers' unilateral termination of an employment contract. Any unilateral termination by the employer must fully comply with both substantive grounds and procedural requirements to be lawful. By contrast, the employee may unilaterally terminate without cause, but subject to notice requirements.

The Labour Code (Article 36) sets out seven lawful grounds for unilateral termination by the employer. Among these, the most common, and most frequently disputed, ground is the employee's frequent underperformance of assigned duties.

Termination for Frequent Underperformance

To successfully rely on this ground, the employer must meet strict evidentiary requirements:

- implement a formal performance evaluation policy with clear, measurable metrics. The policy must be consulted with the local trade union;
- maintain clear, accurate, and up-to-date job descriptions so that performance evaluations are legally defensible; and
- document all performance evaluations in writing, focusing on objective key performance indicators (KPIs).

The burden of proof lies with the employer to demonstrate a consistent pattern of poor performance. This must be supported by clear, objective, and well-documented evidence (e.g., performance reviews, KPIs, and warnings), rather than relying on isolated incidents.

Although not legally required, implementing a structured Performance Improvement Plan (PIP) is strongly recommended. A well-documented PIP demonstrates that the employer acted reasonably and proportionately, which helps reduce the risk of the termination being ruled unlawful.

Notice requirements

Except in specific cases (such as unauthorised absence for 5 consecutive working days or dishonest recruitment information), the employer unilaterally terminating its employee must provide advance notice as follows:

- 45 days for indefinite-term contracts,
- 30 days for definite-term contracts of 12 to 36 months, or

- 3 working days for a seasonal contract or a contract with a term of less than 12 months.

Longer notice periods apply to certain categories of employees (e.g., management positions, aircraft crew members and maritime crew members).

Prohibited Circumstances

The employer is prohibited from unilaterally terminating an employment contract in certain circumstances. These include where an employee is undergoing medical treatment for a work-related injury or occupational disease, or is on annual leave, personal leave, or any other form of absence consented by the employer.

The law also shields female employees who are pregnant, on maternity leave, or nursing a child under 12 months of age, alongside any employee taking statutory parental leave under national social insurance regimes. No employer termination is permitted under these circumstances.

In addition, termination of employees serving on the executive board of a grassroots trade union is subject to strict procedural steps.

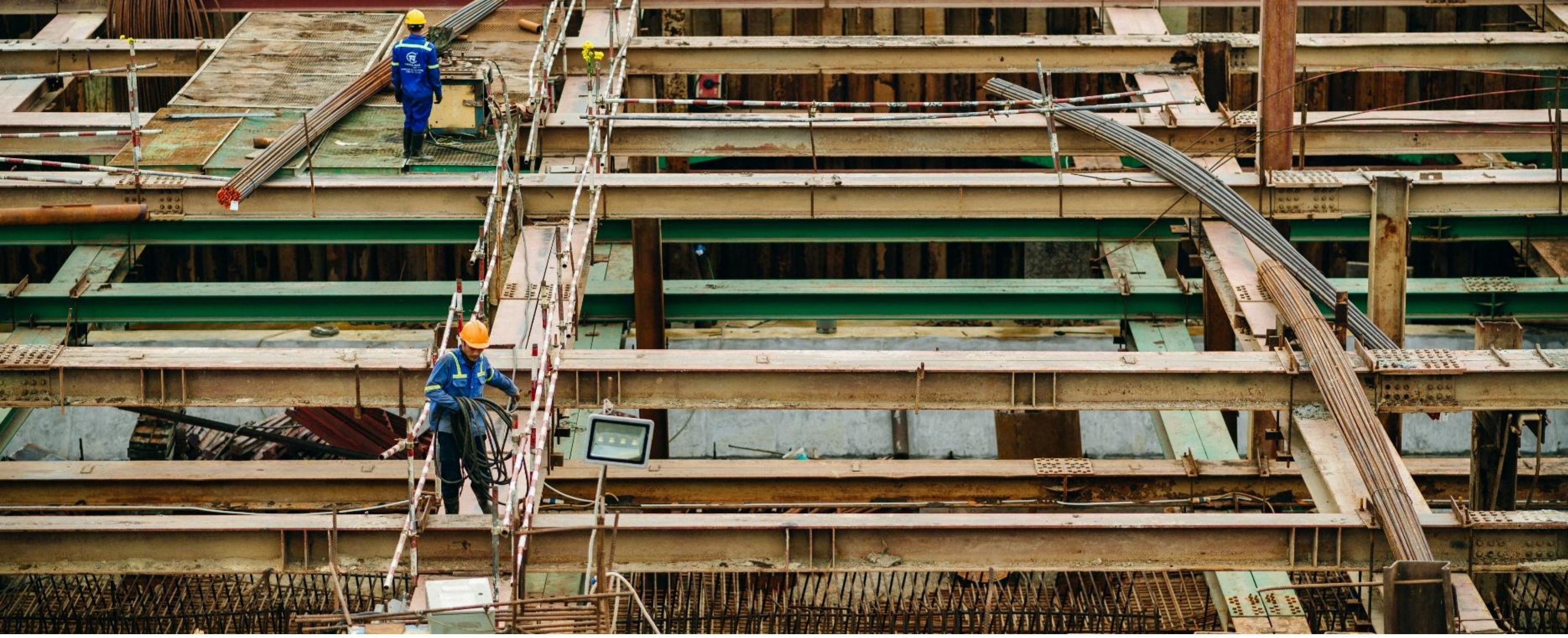
Consequences for unlawful termination

Unlawful termination may expose the employer to significant legal risks, including labour disputes, reinstatement orders, and back-pay liabilities. Depending on the employee's choice, the employer may be liable for the following:

(a) If the employee agrees to reinstatement, the employer must reinstate the employee, pay full back wages (including social insurance contributions) for the period of absence, and provide additional compensation of at least two months' salary.

(b) If the employee does not wish to return, the employer must pay the amounts in item (a) above plus a severance allowance equal to half a month's salary per year of service.

(c) If both parties agree not to reinstate, the employer must pay the amounts in item (b) above plus a mutually agreed additional sum, typically at least two months' salary.



4.2 Retrenchment

Employers in Vietnam may execute workforce reductions or mass layoffs by means of retrenchment, on either of two statutory grounds:

- changes in organisational structure, technology or for economic reasons; and
- full or partial division, consolidation, or merger of the enterprise, or transfer of ownership or use rights over its assets.

Retrenchment carries significant compliance risk, and employers must both establish a valid statutory ground and strictly follow the applicable mandatory procedural requirements to avoid exposure to unlawful termination claims.

Labour usage plan

Under either ground, the employer must prepare a labour usage plan (LUP) setting out matters such as the number and identity of employees to be retained, retrained, or made redundant. The LUP must be developed in consultation with the trade union, where one exists, and publicised to all affected employees once adopted.

Notice requirements

In addition to the LUP, retrenchment under either ground requires the employer to hold discussions with the trade union (if any). Where retrenchment is based on changes in organisational structure, technology, or economic reasons, the employer must further provide at least 30 days' advance written notice to both the provincial labour authority and the affected employees before terminating their employment contracts.

Job-loss allowance

An employee terminated by reason of retrenchment is entitled to a job-loss allowance of at least one month's salary for each year of service, subject to a minimum aggregate payment of two months' salary. This allowance applies only to employees who have worked regularly for the employer for 12 months or more.

4.3 Disciplinary Action

The employer may take disciplinary action in response to an employee’s misconduct, which is typically a conduct that breaches workplace rules, duties or standards of behaviour.

Disciplinary measures

The Labour Code recognises four disciplinary measures, including (a) reprimand, (b) deferment of pay rise up to 6 months, (c) demotion, and (d) dismissal, which is the most severe.

Ground for dismissal

Dismissal is permitted only for serious or repeated misconduct that meets statutory criteria, including scenarios where:

- The employee commits an act of theft, embezzlement, gambling, deliberate violence causing injury, or uses drugs at the workplace.
- The employee discloses technology or business secrets or infringes intellectual property rights of the employer or is guilty of conduct causing serious loss and damage or of conduct which threatens to cause particularly serious loss and damage to property or interests of the employer or commits an act of sexual harassment at the workplace as defined in the internal labour rules.
- The employee is dealt with in the form of deferment of pay rise or demotion and then commits a second offence;
- The employee does not turn up to work for five consecutive days within 30 days or an accumulated 20 days within 365 days calculated from the first day of leaving work, without a justifiable reason.

Substantive and procedural compliance

Employers must strictly comply with both substantive and procedural requirements when imposing disciplinary measures. Key requirements include:

- Legal basis: Employers may only apply disciplinary measures for misconduct that is expressly provided in either the registered internal labour rules (ILR) or in a signed employment contract.
- Evidence: The employer must be able to substantiate the misconduct with lawful evidence.
- Employee participation and representation: The employee and the grassroot labour representative must be given the opportunity to participate in the hearing. The employee must be able to defend himself/herself or through a representative.
- Documentation: The disciplinary process must be recorded in meeting minutes.
- Procedural requirements: The employer must follow statutory procedural steps from discovery, evidence collection and advance notice, to convening the disciplinary hearing and issuing a final decision.
- Time limits: The formal disciplinary decision must be issued within 6 months from the date the misconduct occurred; where the misconduct involves corporate finance, assets or commercial secrets, the time limit is 12 months.
- Additional rules:
  - The employer may not impose multiple disciplinary measures for the same act of misconduct.
  - If the employee commits several simultaneous acts of misconduct, the employer may apply only the single highest sanction corresponding to the most serious offence.
  - The employer may not impose a fine or reduce wages instead of dealing with the breach of labour discipline.
  - The employer is prohibited from taking disciplinary action in certain circumstances, for example when the employee is on sick leave, authorised leave, pregnancy, maternity leave, or while raising a child under 12 months of age.

SECTION FOUR

CONTRIBUTIONS, TAX & ESOP

4.1 Compulsory Contributions

The employer is required to withhold and deduct employees' applicable personal income tax (PIT), compulsory insurances, trade union contributions (if applicable), and any other statutory deductions required by law, and then pay such deducted amounts to the relevant authorities.

The employer may not require or arrange for employees to bear responsibility for the employer's own statutory obligations, including by way of net salary arrangements that shift the employer's compulsory contributions onto the employee.

4.1.1 Compulsory insurance contribution

For Vietnamese employees, the compulsory insurance contribution rates are 10.5% for the employee and 21.5% for the employer, including contributions for social insurance, health insurance and unemployment insurance.

For foreign employees, the rates are 9.5% and 20.5% respectively, including contributions for social insurance and health insurance but excluding unemployment insurance.

Contribution	Employee	Employer
Vietnamese employees (social, health, unemployment insurance)	10.5%	21.5%
Foreign employees (social, health insurance only)	9.5%	20.5%

There is a cap for the base salary for calculating compulsory insurance contributions, which is 20 times the base salary applied for social insurance and health insurance; and 20 times the monthly minimum wage applied for unemployment insurance.

4.1.2 Trade union fee

For further details on trade union fees, please refer to Section 3.2 above.

4.1.3 Personal income tax

Residents

Personal income tax (PIT) applies to Vietnamese employees and to foreign employees who qualify as tax residents of Vietnam under Vietnamese tax law. An individual is generally considered a tax resident if they:

- are present in Vietnam for 183 days or more in a calendar year (or 12 consecutive months from first arrival), or
- maintain a habitual residence in Vietnam.

Where such an employee's income is paid under an employment contract with a term of 3 months or more, the employer withholds PIT on a progressive basis in accordance with the payroll withholding tables below (rather than at a flat rate).

Taxable income comprises all income earned worldwide (both within and outside Vietnam), regardless of where it is paid or received. If the employee is a tax resident of a country that has a Double Taxation Agreement (DTA) with Vietnam, PIT lawfully paid in that country may be credited against the PIT payable in Vietnam, subject to the terms of the relevant DTA.

Annual Taxable Income (VND)	Monthly Taxable Income (VND)	Tax Resident PIT Rates
Up to 120,000,000	Up to 10,000,000	5%
Above 120,000,000 to 360,000,000	Above 10,000,000 to 30,000,000	10%
Above 360,000,000 to 720,000,000	Above 30,000,000 to 60,000,000	20%
Above 720,000,000 to 1,200,000,000	Above 60,000,000 to 100,000,000	30%
Above 1,200,000,000	Above 100,000,000	35%

Non-residents

Non-tax residents are subject to a flat rate of 20 percent of Vietnamese PIT on their Vietnam-sourced employment income (e.g. income derived from work performed in Vietnam), regardless of where the payment is made or the source of funds.

4.2 ESOP

Availability of ESOPs

In Vietnam, an employee stock ownership plan (ESOP) is most readily structured for a joint stock company, as it is linked to the issuance, allocation or transfer of shares. If the employer is not a joint stock company, a conventional “share bonus” structure is generally unavailable. In such cases, the employer should consider alternative incentive arrangements rather than attempting to implement a standard ESOP.

Applicable framework

For Vietnamese joint stock companies, the applicable legal framework depends on whether the company is public or non-public.

- Public companies: ESOPs are primarily regulated by securities laws.
- Non-public joint stock companies: ESOPs are implemented under the Law on Enterprises and the company’s internal corporate approvals.

Under current Law on Enterprises, ESOP is not established as a separate statutory regime. In practice, it is usually built on the rules governing shares, shareholders, private share offerings, share transfers and corporate governance. Therefore, a non-public joint stock company intending to implement an ESOP should clearly document the eligibility criteria, number or method of determining ESOP shares, vesting schedule, post-vesting employment commitment, transfer restrictions, performance conditions, shareholder rights and required approvals of the General Meeting of Shareholders and/or Board of Management. Once ESOP shares are issued or transferred to employees, those employees become shareholders of the company, and their rights and obligations must align with the company’s charter, shareholders’ arrangements and applicable law.

Offshore ESOPs

Vietnam permits foreign parent companies to grant offshore ESOPs (or similar equity-based awards) to Vietnamese employees. These typically take the form of direct stock bonuses or other non-cash awards that do not require employees to remit funds overseas.

The plan must be implemented through the Vietnamese employer, which is required to open and use a dedicated foreign-currency payment account for ESOP-related receipts and payments, including dividends and other lawful income from the offshore share awards.

Although registration of the Offshore ESOPs with the State Bank of Vietnam is no longer required, the Vietnamese employer must comply with the monthly reporting regime, with reports generally submitted by the 12th day of the month following the reporting month in both electronic and written form as required by the State Bank of Vietnam.

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About Kinstellar Southeast Asia (Vietnam)

Kinstellar Southeast Asia, in cooperation with Asia Counsel Vietnam Law Company Limited, is a leading law firm based in Ho Chi Minh City with over a decade of experience advising international and Vietnamese investors. Our team of more than 30 legal operatives combines deep local insight with international standards to deliver precise, business-focused legal advice. Our partners are internationally trained and have practised at leading global and regional law firms, working seamlessly on multi-jurisdictional mandates. We support banks, funds and corporates on complex cross border transactions in Vietnam and across the region.

In our employment practice, we advise investors, employers and HR teams on the full spectrum of employment law matters in Vietnam, from employment contracts and internal policies to work permits, restructuring, and dispute resolution. We also advise on the employment aspects of M&A, including workforce transfers and post-completion integration.

Our clients span multinational corporates, funds, financial institutions and Vietnamese enterprises across a range of sectors, on both day-to-day labour compliance and the employment workstreams of cross-border transactions.

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