Local people’s perceptions of equity and their preferences for how revenue from payments for environmental services (PES) schemes are distributed and used, and their ability to influence spending decisions, can shape the scheme’s effectiveness in achieving forest management and poverty reduction goals. In our study, we investigate how the interplay between formal institutions, social and cultural norms, and decision-making processes in rural Vietnam influences how PFES payments are currently being used to improve forest protection and to support local livelihoods. We assess equity according to three dimensions: contextual equity, procedure equity and distributive equity. Our study sample encompasses Son La and Dien Bien provinces in northern Vietnam. In total, we conducted a survey with 107 village heads, 15 focus group discussions in seven communes and 494 in-depth interviews with key. With regards to distributional equity, we find that on the ground PFES payments (i) are based on an egalitarian distribution principle in both provinces, i.e. everybody is getting the same payments regardless of their effort; (ii) that this is not what people perceive as equitable; (iii) they rather prefer payments based on merit, i.e. those should get paid who actually do the forest protection work. Further, we find that benefit sharing decisions within the villages were shaped by issues of procedural equity e.g., which payment distribution rule was easiest to monitor, and the accountability of village management board, i.e. to what extent villagers trust their leaders. Finally, our findings reveal that equity outcomes are very much affected by contextual factors, such as how the Forest Land Allocation regulation determines the distribution of use rights, which favors elite groups in the implementation process. Overall our study offers useful lessons on how to understand and address equity in decision making for PES payment schemes and benefit sharing mechanism under REDD+. 