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Incentives for Foreign Investors in Vietnam

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With a strategic geographical location, a competitive labor force and a range of cost-saving factors, Vietnam is considered an attractive investment location for foreign investors, especially those who wish to diversify their investment portfolio. In that context, the Vietnamese government has been continually improving business conditions through reform and upgrade of investment incentives, making the country more appealing to foreign investors.

Tax Incentives

Among all the investment incentives being offered, tax incentives are considered to be the most prominent feature of the Vietnamese business landscape.

Corporate income tax (CIT) incentives are granted to both foreign and local investors, to promote investment in sectors or areas that are in line with the government's development strategies.

There are two main CIT incentives in Vietnam—preferential tax rates (reduced tax rates), and tax holidays (tax exempted for a certain period or the lifetime of project).

Vietnam also offers customs duty incentive policies and land rental exemption policies that further help to reduce expenses for companies.

Tax incentives available in Vietnam are summarized below.

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Preferential Tax Rates Companies are entitled to pay CIT at a rate lower than the standard 20%. There are three preferential rates—10%, 15% and 17%. These lower rates can either hold good for the entire lifetime of a project or for a pre-defined period, depending on the specific provisions. With a few exceptions, such as high-tech enterprises or projects, the period for the preferential tax rate basically starts from the first year of revenue generation.

Tax Holidays Companies can qualify not to pay CIT for a pre-defined period, which is generally four years. In some cases, after the completion of a tax holiday, companies also receive a partial tax holiday, where they only have to pay 50% of the payable tax. The period of tax holiday generally starts with the first year of profit making or fourth year of revenue generation, whichever is earlier. In certain cases, companies can enjoy the benefits of a tax holiday and preferential tax rates at the same time.

Vietnam's Law on Investment, as well as its subsequent decrees and circulars, specifies the types of projects that qualify for incentives and the nature of incentives for which these projects qualify. The most common incentives are those available for investments made in specialized locations, industries, or investment zones in the country.

Eligibility for Tax Incentives

The Vietnamese government provides tax incentives for businesses based on the following factors—sector, location, and size of investment.

Incentives for Prioritized Sectors Certain sectors in Vietnam are encouraged for investment, and include industries that the government plans to incentivize, facilitate investment in, or which are beneficial for society:

- high-tech industries;
- supporting products used in high-tech industries;
- software products;
- research and development;
- selected agricultural and allied sectors;
- infrastructure development;
- renewable energy;
- education;
- health care;
- sports and culture.

Companies operating in the above sectors are given the following tax incentives.

- Firms making new investments in technology-related sectors, garments, footwear, automobiles, goods that are not produced domestically, and investments where the products meet the EU quality standard, are taxed at 10% for 15 years. This period also includes a tax holiday for the first four years and 50% reduction in the CIT rate for nine subsequent years.
- Companies operating in the sectors of education and training, health care, sports, culture, and environment, have a tax rate of 10% for the entire lifetime of their project.
- Companies earning their income from prescribed agricultural and allied activities are eligible for a 15% tax rate for the entire lifetime of their project. Firms producing equipment for the above prescribed agricultural sectors can also receive a tax incentive in the form of a 17% tax rate for the entire lifetime of their project.

Incentives in Disadvantaged Locations Depending on the quality of infrastructure development, social conditions, and geographical condition, locations are categorised into three groups with regard to available incentives: areas with difficult socio-economic conditions; areas with extremely difficult socio-economic conditions; and remaining areas. Companies operating in difficult and extremely difficult socio-economic conditions are generally offered tax incentives. Firms operating in Special Economic Zones (SEZs), High-Tech Zones (HTZs) and Information Technology Parks (ITPs) are also eligible for tax incentives.

The tax incentives based on location are as follows:

- firms operating in extremely difficult areas, SEZs or HTZs are taxed at 10% for the first 15 years of revenue generation. This period also includes a tax holiday for the first four years followed by a 50% reduction for the subsequent nine years;
- firms operating in difficult areas are taxed at 17% for 10 years of revenue generation. This period also includes a tax holiday for the first two years, followed by a 50% reduction for the subsequent four years;
- firms operating in industrial parks are eligible for two years of tax holidays, followed by a 50% corporate tax reduction for the subsequent four years.

Size of Project Tax incentives are also available for large manufacturing projects (excluding those in natural resources). There are two criteria for categorizing large projects:

- manufacturing projects with an investment capital of more than 6 trillion Vietnamese dong ($261 million) disbursed within three years of being licensed:
    - the minimum revenue is 10 trillion Vietnamese dong per annum by the fourth year of operations at the latest; or
    - the minimum headcount is 3,000 by the fourth year of operations at the latest.
- manufacturing projects with an investment capital of more than12 trillion Vietnamese dong disbursed within five years of being licensed and using prescribed high technology.

The investments meeting either criterion are taxed at 10% for 15 years. These companies are also eligible for a tax holiday for the first four years, followed by a 50% reduction in the CIT rate for the next nine years.

Other Incentives

Exemption from Customs Duties Businesses can also enjoy exemptions from import duty if they meet one of the following criteria:

- goods are imported to form fixed assets of select projects prescribed under the law;
- goods are imported for implementing export processing contracts with foreign parties;
- raw materials and supplies are imported to directly serve the production of software products, and cannot be produced domestically;
- goods are imported for use in scientific research and technological development, and cannot be produced domestically.

Incentives on Land Rental A land rental fee exemption is provided for investment projects that satisfy specific conditions such as investment in encouraged sectors or certain business fields and/or encouraged geographical locations:

- exemption for the whole operational period—projects on the list of special investment encouragement sectors investing in areas of particularly difficult socio-economic conditions;
- 15 years of exemption—projects on the list of special investment encouragement sectors investing in areas of difficult socio-economic conditions or projects on the list of investment encouragement sectors investing in areas of extremely difficult socio-economic conditions;
- 11 years of exemption—projects investing in areas of extremely difficult socio-economic conditions; proj-

ects in the list of special investment encouragement sectors; projects in the list of investment encouragement sectors investing in difficult socio-economic areas;

- seven years of exemption—projects investing in areas of difficult socio-economic conditions;

- three years of exemption—projects on the list of investment encouragement sectors; business and production relocation under urban planning or due to environmental pollution.

Planning Points

Conditions for qualifying for entitlement to an incentive are not always straightforward, applicable to practical investment circumstances, or consistently interpreted by the provincial tax authorities.

Foreign investors who are intending to invest in Vietnam should therefore consider the following points before executing their investment plan.

Pursuant to the law, investment projects, when meeting multiple eligibility requirements for CIT incentives, shall be entitled to the most favorable incentive. Investors should carefully assess their options when entering the Vietnamese market in order to find the incentive program that balances cost reduction and compliance.

While the withdrawal of incentives is uncommon, investors who fail to meet the requirements specified in their incentives packages may lose incentives and can be subject to respective penalties for incorrect tax declaration due to wrong incentive application.

The Ministry of Planning and Investment is in charge of granting investment incentives, but this work is conducted in conjunction with local governments. During the application process, various technical ministries may be involved to assess an investment project. Once investment incentives are granted, the Ministry of Finance and tax departments are responsible for scrutinizing the applicable incentives at the later stage.

Vietnam's tax incentives, while attractive on paper, can present challenges to investors unfamiliar with the country's legal system. Foreign investors interested in investing in Vietnam and securing investment incentives must ensure they are aware of the available incentives which will provide the best saving for them over the duration of their project.

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