

**April 2016**

# Government incentives have been established for “supporting industries” in Vietnam



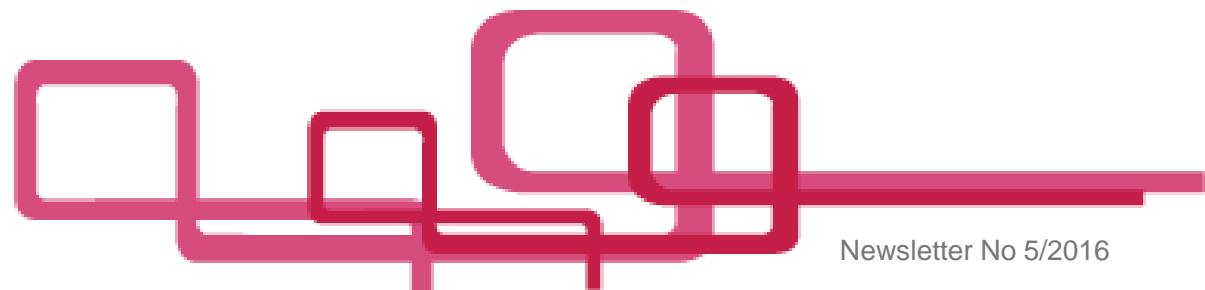
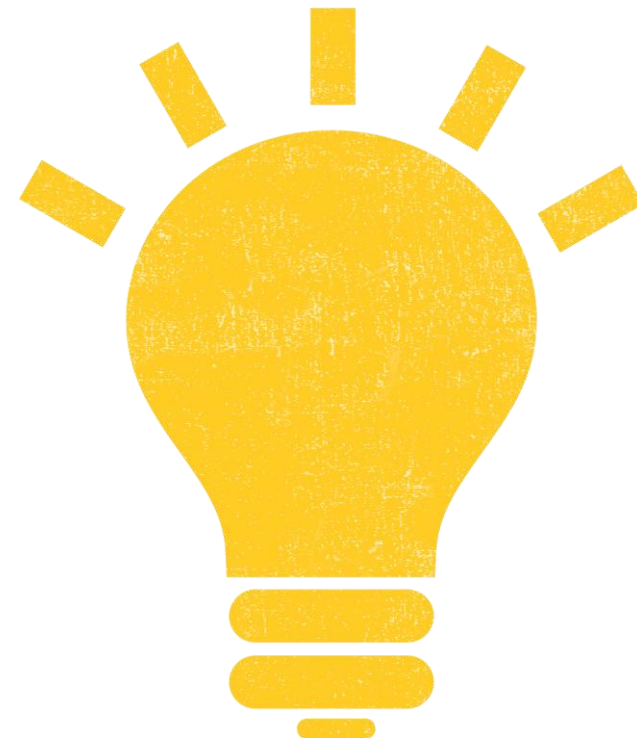
“Supporting industries” (hereinafter referred to as “SI”) are an important part of the manufacturing sector for developing countries, such as Vietnam. SI is considered as one of the core industries since it plays a decisive role in determining competitiveness of industrial products, promoting the process of industrialization and modernization, attracting foreign investment as well as promoting transfer and improvement process of technology. Realizing the important role of SI and taking into consideration of the current facts and limitations, the Vietnamese Government wishes to support SI and has enacted Decree No. 111/2015/ND-CP on development of SI (“Decree 111”) effective since 1 January 2016.

In continuation, the Ministry of Industry and Trade issued Circular 55/2015/TT-BTC on 30 December 2015 (“Circular 55”) providing guidance on the procedures for applying incentives for investment in projects manufacturing supporting industrial products on the List of industrial products of prioritized development.

In terms of taxation, the Ministry of Finance has also issued Circular 21/2016/TT-BTC dated 5 February 2016 (“Circular 21”) providing guidance on Valued Added Tax (VAT) declaration and Corporate Income Tax (CIT) incentives for investment projects manufacturing supporting industry products according to the List of industrial products of prioritized development under Decree 111. doanh nghiệp đối với các Dự án sản xuất sản phẩm CNHT thuộc Danh mục sản phẩm CNHT ưu tiên phát triển ban hành tại Nghị định số 111.

In this Newsletter, Grant Thornton Vietnam would like to comment on the following:

1. Supporting Industries
2. Incentives applied for investment in Supporting Industries
3. How to obtain Certification of incentives for products of SI?
4. Assistance from Grant Thornton Vietnam



## 1. Supporting industries

Investment project manufacturing goods of SI on the list of supporting products of prioritized development includes new investment projects, expansion projects and technological innovation incorporated with new equipment, new production processes, production processes which increase product capacity by at least 20%.

List of supporting products of prioritized development is detailed in the Appendix attached to Decree 111, with the following typical industries/products:

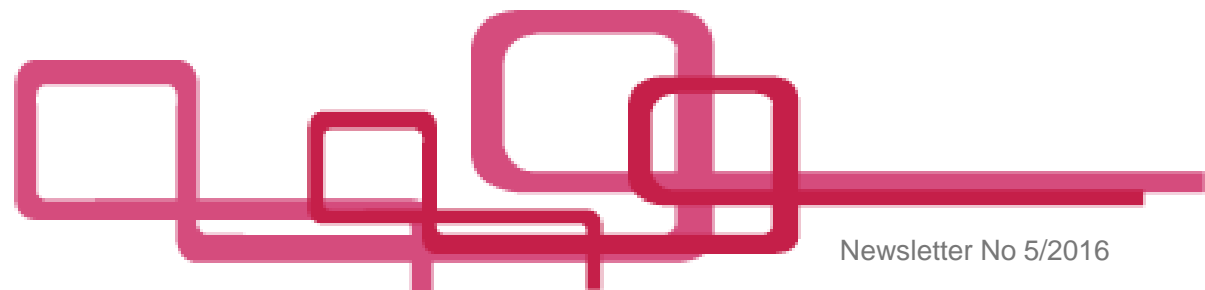
- Textile and garments: Fabrics, threads, garments materials, etc.
- Leather and footwear: Shoe adhesive, decorative materials such as buckles, eyelets, hooks, etc.
- Electronics: Components for electronic products: Plastic components, rubber components, mechatronics components, glass components; batteries for mobile phones; wires and cables, LEDs, headphones and speakers, etc.
- Automobile manufacturing and assembling: The engine and engine components: body, piston, crankshaft, connecting rod, gear, exhaust, cylinder, cylinder head, camshaft, serge-cement, engine valves; lighting and signaling system: lights, horn, gauges, etc.
- Manufacturing mechanical engineering: Molds, jigs: cast, machining jig, check jig; components and accessories of mechanical machines, welding machines; structural steel, etc.
- Industrial products supporting Hi-Tech industries, for example:
  - Types of molds: high precision molds, high precision plastic molds
  - Types of electronic components, electronic circuits for equipment development: peripheral, computer, electronic household commodities, audiovisual equipment, solar cell; microprocessors; controllers (PLC programmable controllers, CNC controllers, etc.);

- Types of high quality plastic details: precision actuators, long lasting details which are heat-resistant and wear-resistant plastic;

## 2. Incentives applied for investment in Supporting Industries

Various tax incentives as follows:

- **Import Tax:** exempt from import tax for imported goods to create fixed assets
- **Value Added Tax (VAT):** entitled to quarterly VAT declaration for the turnover of goods of SI on the list of supporting products of prioritized development (regardless of the turnover above / below VND50 billion per year
- **Corporate Income Tax ("CIT"):** New investment projects that are entitled to a preferential CIT rate in accordance with Law no. 71/2014/QH13 dated 26 November 2011 providing amendments to the Law on taxes manufacturing the products of SI must satisfy one of the following conditions:
  - a. Products of SI which are domestically manufactured prior to 1 January 2015 (stipulated in Appendix 1 of Circular 55) and supported with Certification of Conformity to technical standards of the European Union (standards promulgated by CEN - European Committee for Standardization) or the equivalent (if any);
  - b. Products of SI belonging to the List of goods of SI prioritized for development under Decree no. 111/2015/ND-CP dated 3 November 2015 of the Government and not listed in the Appendix issued together with Circular 55.



- **Investment Credit:** Small and medium-sized enterprises (SMEs) may take loans up to 70% its investment capital under the guarantee of credit guarantee of organization for SMEs if they qualify under the following conditions: the total value of mortgage or pledges for other kinds of loans amounting at least 15% of the loan; Owner's equity capitalized in the project is at least 20%; no outstanding liabilities to the state budget, bad debts to credit institutions or other economic organizations.
- **Water surface/ land rents:** Được miễn, giảm tiền thuê đất, thuê mặt nước theo quy định của pháp luật về đất đai.

### 3. How to obtain Certification of incentives for products of SI?

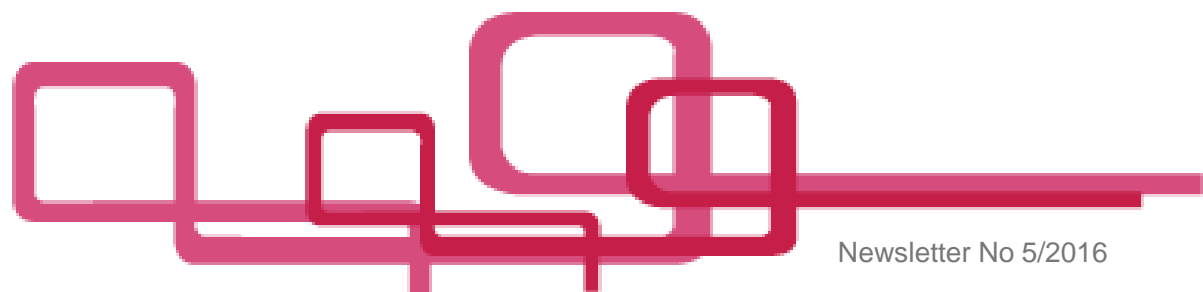
#### Applicant is a new investment project manufacturing goods of SI:

- Projects implemented for the first time or operated independently of a current project;
- Project is under production and expanding its scale, enhancing productivity, innovating technology for manufacturing supporting industry's products incorporated with new equipment, new production process where production capacity increases by at least 20%.

#### Application to be submitted to competent provincial authorities where the project is implemented or to Department of Heavy Industry belonging to Department of Industry and Trade:

- A written request for incentive certification.
- Business Registration Certificate or Enterprise Registration Certificate;
- Explanation on the project:

- For a first time project or an independent project: Proposal for investment project under the current regulations on investment and construction;
- For an existing project
  - Explanation on current status of its manufacturing process, facilities (plants), machinery and equipment (a list of machines and its capacity, specialized equipment; measuring and quality control devices), project's capacity, latest annual audited report (or an annual financial statement);
  - Explanation on expanding its scale, innovating technology using new equipment and new manufacturing processes with an increase in productivity by at least 20% under the current regulations on investment and construction
  - Decision on approval for environmental impact assessment (for new investment project), or Commitment on environmental protection under the Law on Environmental Protection, or Confirmation on completing construction, environmental protective measures (for existing projects).
  - Certificate of Conformity to technical standards of the European Union (standards promulgated by CEN - European Committee for Standardization) or the equivalent (if any) granted by the competent agency which is permitted to exercise certification activities under regulations on product quality.



### **Timeline:**

- Within five (05) working days, the competent authority shall examine the eligibility of the application;
- For a complete and valid application, within fifteen (15) working days, the competent authority shall assess such application or carry out a site inspection, if necessary. The competent authority shall send a notification on result of certification of incentives within thirty (30) working days.

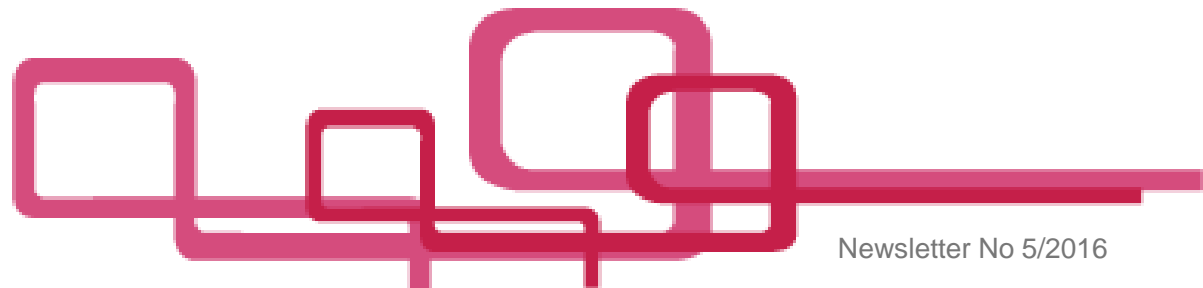
### **Annual Report after obtaining the Certification:**

Enterprises that are entitled to incentives shall submit an annual report on the status of manufacturing and trading of goods of SI to the Ministry of Industry and Trade no later than 31 January of the following year.

### **4. Assistance from Grant Thornton Vietnam**

We understand the importance of determining whether the investor is eligible for incentives as well as the accuracy and validity of documents to be submitted to the authorities. Grant Thornton Vietnam is pleased to assist investors in reviewing, evaluating, planning and supporting relevant procedures related to the Certification of tax incentives to ensure the accuracy of incentives applied for specific projects in Vietnam.

**Please contact Grant Thornton Vietnam's professional advisors for further discussion.**



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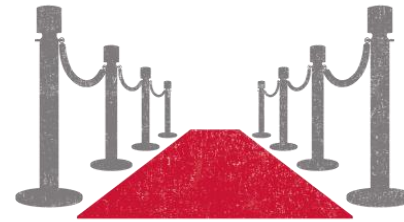
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