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Tax Alert

Vietnam – Proposed tax incentive changes

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What are the changes?

Over the past 30 years of social-economic reforms, Vietnam's tax incentive regimes have been constantly changing to align with the changes of political and social landscapes. The Ministry of Finance (MoF) is drafting an amended Corporate Income Tax Law ("the Draft"), which is expected to take effect in 2021 or later. In this Alert, we would like to update you on the latest tax incentive proposals in the Draft.

1. Location-based Corporate Income Tax ("CIT") incentives to be narrowed to remote areas only

The MoF is proposing to remove the current CIT incentives for Economic Zones ("EZs") and Industrial Zones ("IZs"). Location-based CIT incentives would be granted to areas with (especially) difficult socio-economic conditions only and the list of such areas is suggested to be amended.

2. Sector-based CIT incentives to be navigated to fuel prioritized industries

The MoF has considered introducing CIT incentives for certain sectors, including important software services and digital content production, science and technology enterprises, automobile manufacturing and investment projects in rural areas using at least 500 full-time employees.

The MoF is also proposing not to grant CIT incentives for projects manufacturing products subject to Special Sales Tax (excluding automobiles) for consistency with the current Investment Law and remove CIT incentives for:

- Biotechnology development projects (due to the lack of specialized legal documents)
- Projects with minimum investment capital of VND 6,000 billion (Still keep CIT incentives for projects with investment capital from VND 12,000 billion).

Deloitte's view

The MoF tends to tighten the location-based tax incentives to remote areas only. Accordingly, under the Draft, only EZs and IZs in the qualifying remote areas might be entitled to the location-based CIT incentives. However, projects established in EZs and IZs prior to the effective date of the Draft may not be impacted, as they could still enjoy the tax incentive schemes under the prevailing CIT law.

If you are planning new investment or investment expansion in EZs or IZs, you should consider the timing of your investment (i.e. in 2019 or 2020) to optimize tax incentive entitlement.

In addition, the investors should re-visit their industry sectors for current and future investment projects to identify if there is any risk of incentives being impacted or any opportunity for higher tax incentives.

Impacted investors then can work out end-to-end strategic plans regarding timing of investment, possible business restructuring and licensing to optimize incentives.

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DELOITTE'S GLOBAL INVESTMENT AND INNOVATION INCENTIVES (GI^3)

Keeping updated with the latest tax incentive reforms, identifying, and prioritizing the right incentives for your business could be a challenging undertaking, but generate significant benefits. Deloitte has Global Investment & Innovation Incentives (GI^3) practitioners who are ready to provide guidance in order to explore Vietnam's investment and innovation incentives as well as heading up with the political and social trends that might influence your business.

In addition, we would like to introduce Global Report of Innovation and Investment Incentives available in 43 countries. Please access the link below to see countries of your interest:

https://www2.deloitte.com/global/en/pages/tax/articles/global-investment-and-innovation-incentives-survey.html?nc=1

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