



ALERT ON INVESTMENT INCENTIVES IN THE HIGH TECHNOLOGY SECTOR

Decision No. 38/2020/QĐ-TTg approving the List of High technologies prioritized for development and investment and the List of High technology products encouraged for development

03 March 2021

General Information

- On 30 December 2020, Decision No. 38/2020/QĐ-TTg (“Decision 38”) was promulgated by the Prime Minister approving the List of High technologies prioritized for development investment and the List of Hi-tech products encouraged for development (“Hi-tech products”). Decision 38 took effect from 15 February 2021, replacing Decision No. 66/2014/QĐ-TTg (“Decision 66”) dated 25 November 2014; Decision No. 13/2017/QĐ-TTg (“Decision 13”) and Clause 2, Article 1 and Article 4 of Decision No.34/2019/QĐ-TTg (“Decision 34”) dated 18 December 2019 .
 - **Effectively from 15 February 2021, Decision 38 is now the one and only document listing-out all the high technologies prioritized for development and investment (collectively referred to as “Hi-tech”) and Hi-tech products encouraged for development (collectively referred to as “Hi-tech products”).**
 - The first decision on the List of Hi-tech and Hi-tech products was issued in 2010 (e.g. Decision No. 49/2010/QĐ-TTg dated 19 July 2010). Since then, to cope with the practical development of Hi-tech in socio-economic sectors, and for the purpose of attracting development on high technology application in various sectors, the Prime Minister issued other decisions (e.g. Decision 66 in 2014, Decision 13 in 2017) to amend and supplement certain items. In 2019, the Prime Minister approved an additional 20 items on the List of Hi-tech in Article 4 of Decision 34.
- **Urgent and necessary** is the affirmation of the Ministry of Science and Technology under the proposal submitted to the Prime Minister for issuing Decision 38 with the following main reasons:
 - A number of Hi-tech as well as Hi-tech products on the lists attached to Decision 66 and 13 needed to be supplemented, updated and removed in order to be in line with the trend of Hi-tech development in Vietnam as well as the science and technology (“S&T”) development shift in the world.
 - To align with the synchronized and centralized incentive policies and mechanisms set forth under the Law on Investment and the Law on High Technology.
 - Towards the goal of renovating and modernizing domestic technology, increasing the contribution of Hi-tech products in the value of gross industrial production; at the same time concentrating and mobilizing resources effectively, investing in research and development for products bearing Vietnamese identity, high quality, highly added value, outstanding features, and environment-friendly characteristics.
 - In addition, the items of Hi-tech and Hi-tech products are currently contained in different documents (e.g. Decision No. 66, Decision 13 and Article 4, Decision 34) causing obstacles for organizations and individuals in implementation.

With regard to the above, in this Alert, Deloitte Vietnam would like to update you with the following contents:

1. Important changes in Decision 38.
2. Current incentive policies in the Hi-tech sector and application of Decision 38 to identify incentive opportunities.
3. Deloitte Vietnam’s point of view
4. Deloitte Vietnam’s support services.

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1. Important changes in Decision 38

The revised list under Decision 38 includes 99 Hi-tech prioritized for investment and development and 107 Hi-tech products encouraged for development, of which:

- 55 new technologies are added;
- 28 current technologies are revised, supplemented, clarified and upgraded;
- 59 new products and services are added;
- 31 current products and services are modified, supplemented, clarified and upgraded.

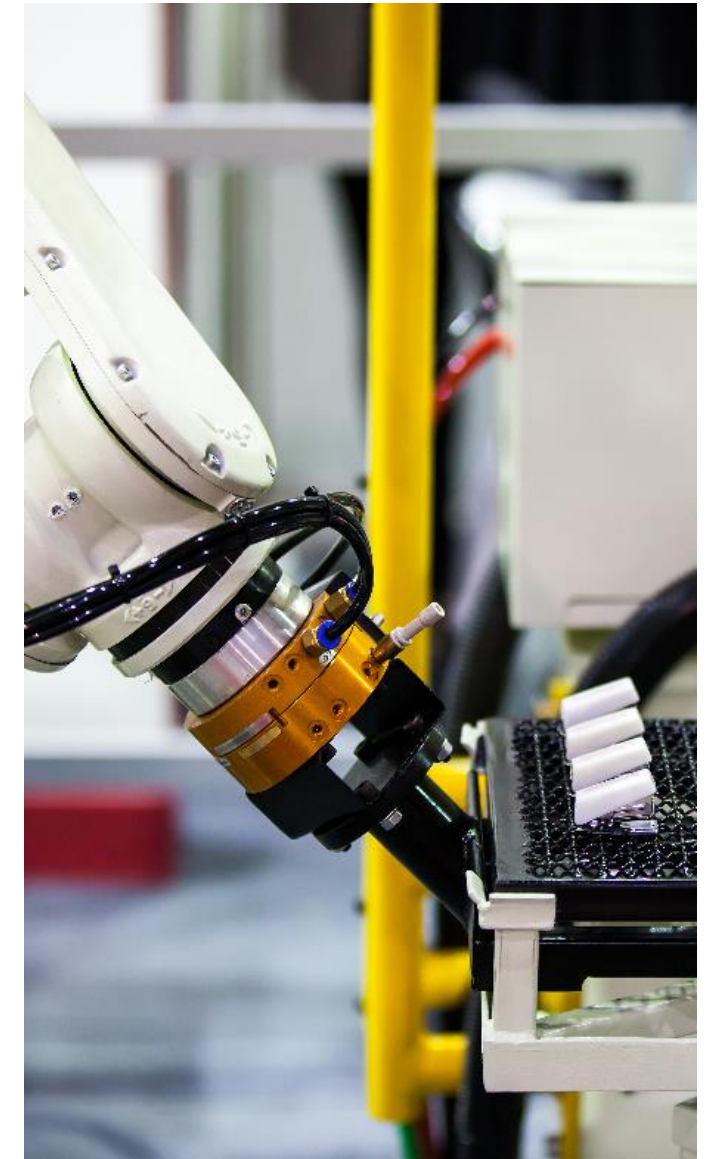
The revised list under Decision 38 was produced base on the following directions and principles:

Hi-tech prioritized for investment and development:

- Being world-class advanced technologies, which are not only new for Vietnam but globally; and suitable with the development shift of modern worldwide S&T;
- Promoting the country's advantages such as effectively utilizing natural resources, climate, environment, and other advantages;
- Being feasible in attracting investment, applying, transferring or innovating technology; being practical in terms of labor and talent for technology acquisition, transfer and innovation;
- Aligning with the vision, strategy, and long-term development plan of all sectors.

Hi-tech products and services encouraged for development:

- Being a product created from Hi-tech;
- Bringing a high proportion of added value in the product value composition;
- Having high competitiveness and considerable socio-economic efficiency;
- Having ability for exporting and replacement of imported products;
- Contributing to the improvement of the national S&T capacity.



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1. Important changes in Decision 38 (cont.)

Still, the revised list in Decision 38 is built on the focus in 04 Hi-technology **development areas, including:** (i) Information Technology; (ii) Biotechnology; (iii) New Material Technology; and (iv) Automation Technology. Accordingly, several new Hi-tech and Hi-tech products and services are added into the list under Decision 38 as follows:

Focused area of technology	Certain new Hi-tech and Hi-tech products and services being added in Decision 38
Information Technology	Technologies, equipment, software, solutions and services which are related to: <ul style="list-style-type: none"> • Blockchain; Digital twin; • Grid computing, edge computing; • Next-generation network technology (4G, 5G, 6G, NG-PON, SDN/NFV, SD-RAN, SD-WAN, LPWAN, IO-Link wireless, Network slicing, new generation optical network); etc.
Bio-Technology	Technologies and products which are related to: <ul style="list-style-type: none"> • Synthetic biology, Molecular biology; • New generation microbiology; new generation self-genetics; etc.
New Material Technology	Production technologies and products which are related to: <ul style="list-style-type: none"> • Catalytic and adsorption materials; • Antibacterial and antiviral equipment and materials for medical use; • Upcycling polymers; • Functional materials; etc.
Automation Technology	Technologies of designing, manufacturing and equipment which are related to: <ul style="list-style-type: none"> • Advanced forging and stamping to create billets for mechanical products; • Intelligent Manufacturing System (IMS); • New generation high-precision numerical control (CNC) machine tools; • Advanced molds with high quality, precision and technical features; • Dedicated digital camera; new generation camera module; • Intelligent sensor and lab-on-a-chip (LOC) system; etc.

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2. Current incentive policies in Hi-tech sector and application of Decision 38 to identify incentive opportunities

In order to attract and encourage domestic and foreign enterprises to increase investment in the Hi-tech sector, the Vietnamese Government has issued diversified investment incentives which are seen as the most beneficial to businesses, specifically as follows:

- Land rental exemption for up to 15 years or even for the whole project life;
- 04 years of Corporate Income Tax (“CIT”) exemption, followed by 9 years of 50% CIT reduction and preferential tax rate of 10% within 15 years. Preferential tax rates can be extended up to a further 15 years, according to the decision of the Prime Minister or the Management Board of the Hi-tech Parks;
- Import duty exemption for the imported goods to create fixed assets; imported raw materials, supplies and components that have not been produced domestically within 05-year period;
- Potential for financial support from the National Hi-tech Development Program's funding and other funding from the State budget;
- Loan program to encourage the development of agriculture applying Hi-tech, organic agriculture, etc.





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2. Current incentive policies in Hi-tech sector and application of Decision 38 to identify incentive opportunities (cont.)

Given the above, the question is how to determine whether an enterprise or its investment project is eligible for what available incentive policies? The following table provides the Company with an overview of investment types in Hi-tech sector being offered incentives, with necessary conditions and criteria to apply:

Type of Investment	Hi-tech Application Project	Hi-tech Enterprise	Investment projects in Hi-tech parks
Conditions	Certificate of Hi-tech Application Project issued by the Ministry of Science and Technology	Certificate of Hi-tech Enterprise issued by the Ministry of Science and Technology	Investment Registration Certificate (“IRC”) for project in Hi-tech parks issued by the Management Board of the Hi-tech Park
Main determination criteria			
Product/Technology Criteria - <i>How to apply Decision 38 to identify incentive opportunities?</i>	Applying production technology of any item in the List of High Technologies prioritized for investment and development. <i>=> Question: Does the production technology applied by the Company fall into the Appendix I of Decision 38?</i>	Manufacturing Hi-tech products on the List of Hi-tech products encouraged for development <i>=> Question: Does the product manufactured by the Company fall into the Appendix II of Decision 38?</i>	Both applying Hi-tech in production and manufacturing Hi-tech products <i>=> Question: Does the production technology fall into the Appendix I and the manufactured product fall into Appendix II of Decision 38 simultaneously?</i>
Revenue criteria	Not required	At least 70%	At least 60% (only applies for project in Ho Chi Minh Hi-tech Park)
Ratio of research and development (“R&D”) expenses over the total net revenue	At least 0.5% or 1% or 2% depending on the size of capital and labor of the project	At least 0.5% or 1% depending on the size of capital and labor of the enterprise	At least 1%
Ratio of R&D employees over the total labor force	At least 1% or 2.5% or 5% depends on the size of capital and labor of the project	At least 2.5% or 5% depending on the size of capital and labor of the business	At least 5%
Other criteria	Apply environmentally-friendly and energy-saving measures in production and product quality control meet technical standards and regulations of Vietnam or specialized international organizations.		

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3. Deloitte Vietnam's points of view

- Deloitte Vietnam believes that the promulgation of the List of Hi-tech prioritized for development and investment and the List of Hi-tech products encouraged for development under Decision 38 shows the Vietnamese Government's focus and vision on approaching global Hi-tech development for the purpose of developing domestic technology in a renovating, modern manner; nonetheless still investment and development of products bearing Vietnamese identity, high quality, high added value, outstanding features, and environment- friendly.
- It is obvious that Hi-tech incentives will bring significant benefits for enterprises, including tax, finance, credit incentives, etc., especially those who possessing Hi-tech in manufacturing and trading. Accordingly, Deloitte Vietnam would highly recommend enterprises operating in the Hi-tech field assess the Hi-tech incentive opportunity by reviewing the regulated criteria as mentioned in Section 2, especially the criteria regarding technology; products and R&D in order to identify appropriate incentive type as well as necessary procedures.
- Besides, within the context of Decision 38 introduction, investment incentives for Hi-tech should be viewed as one of the most important factors to be acknowledged by foreign investors when considering investment or expansion of business in Vietnam in order to increase Hi-tech and R&D level in manufacturing or provision of goods and services; enhance quality of labor and commit to environment protection measures in production.



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4. Deloitte Vietnam's support services

Deloitte Vietnam believes this Alert fairly provides a general view of policy mechanism by the Vietnamese Government in developing and encouraging investment in Hi-tech sector. In particular, the opportunity for Hi-tech incentives would definitely become one of the tax issues that need to be addressed by your business.

With our experience from various practical projects, Deloitte Vietnam would be pleased to assist your business by introducing our support services provided by the Global Investment and Innovation Incentives (GI³) group in relation to high technology incentives as follows:



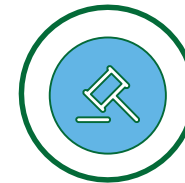
Strategy advisory and planning

- Review and identify investment incentive opportunities
- Calculate potential incentive savings
- Risk assessment and strategic planning



Certificate Application

- Assist in preparing and reviewing application dossiers
- Support to discuss and explain with the appraisal authority
- Support to obtain certificate



Maintenance and Reporting

- Training on the meaning of incentives maintenance
- Reporting compliance services
- Review CIT incentive calculation



Certificate Application

- Support to work with appraisal authority upon a post-inspection
- Support to work with Tax authority upon tax audit



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