

ALERT ON INVESTMENT INCENTIVES FOR SUPPORTING INDUSTRY SECTOR

Draft Decree amending,
supplementing Decree
No. 111/2015/ND-CP on
Development of Supporting Industry

September 2021

General Information

Background

The introduction of Decree No. 111/2015/ND-CP has shown that the legal systems, policies to support development and incentives in the Supporting Industry (“SI”) have been increasingly improved, contributing to the improvement of the SI production capacity of domestic and foreign investors.

According to the Resolution No. 115/ND-CP dated 06 August 2020, the Government affirmed that SI development policies need to be further improved to match the development requirements and demonstrate consistency in implementation.

Currently, the Ministry of Industry and Trade is in process to finalize the Draft Decree to amend Decree No. 111/2015/ND-CP dated 03 November 2015 on the **Development of Supporting Industry** (“Draft Decree”), this Draft Decree is expected to be issued and come into effect soon.

Summary of changes in the Draft Decree



Subjects enjoying incentives

- Expand the scope of SI to include processing activities, and SI products to include auxiliary materials.
- Provide assessment criteria which are clearer and more consistent with tax regulations concerning the condition of at least 20% production capacity increment for investment expansion projects.
- Amend the list of SI products prioritized for development, with amendments and supplements of products to the current list under Decree No. 111.



Conditions of incentives

- Supplement additional conditions to evaluate projects enjoying SI incentives, such as:
 - Modern, high-tech production process;
 - New technology updates;
 - Standards for quality management;
 - Standards for human resources of the project.



Incentive policy

- Supplement a number of preferential policies for projects producing SI products prioritized for development, such as:
 - Credit support;
 - Environmental protection support;
 - Legal support;
 - Inspection, assessment, quality certification support.

In this Alert, Deloitte Vietnam would like to update the main contents as below:

1. Important changes in the Draft Decree, including:
 - Subjects enjoying SI incentives;
 - Conditions to enjoy SI incentives;
 - Incentive policies for enterprises manufacturing SI products
2. Deloitte Vietnam’s points of view

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Major changes

Subjects being entitled to SI incentives

Expansion of SI scope

The Draft Decree stipulates more clearly and comprehensively the SI scope **including processing activities**, and SI products **including auxiliary materials**.

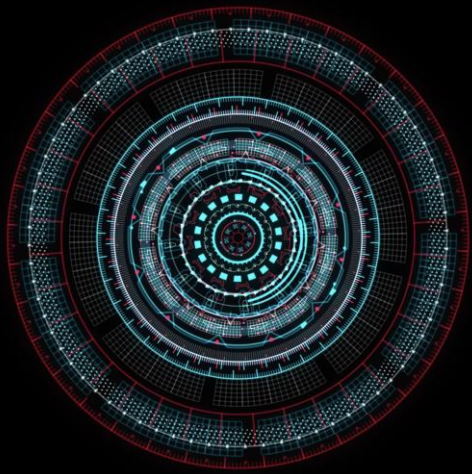
Clearer definition of criteria on investment expansion projects

The conditions to determine an expanded investment project have been updated with **clearer direction**, showing **consistency** with the provisions of the documents guiding the Law on Corporate Income Tax. These will enable enterprises to more easily in prove the project's scope and provide a better basis for competent authorities in inspection and assessment.

Updated list of SI products

The list of SI products is expected to be amended and supplemented to better suit the actual production practice in the current SI sectors. For example, the additional products include:

- **Textile & garment industry:** Dyes for industry (textile, dyeing, printing, embroidery, washing); Textile accessories (hooks, latches, bras, rivet, oze, etc.); Plastic resins; Products of the stages such as weaving, dyeing, finishing, printing, embroidery, etc.
- **Footwear industry:** Footwear accessories (zippers of all kinds, plastic cutting boards for cutting leather fabric, etc.); Shoe molds (form); Plastic resins, rubber raw materials, etc.
- **Electronics industry:** Inductor; Printed circuits; Mobile phone, camera parts; Other components, etc.
- **Automobile industry:** Cooling system (air conditioner compressor, air conditioner cooling device); Steering system components/assemblies; Braking system assembly/comprehensive details; Software for engine control, control system and details and components of automobile control system; Details and components for assembling charging stations, electric car charging stations; Other components and assemblies of components for manufacturing and assembling cars, etc.
- **Mechanical fabrication:** Metal molds, assembly jigs, brackets; Components and spare parts of machinery, equipment for manufacturing and assembling railway vehicles, locomotives, wagons, spare parts and supplies for railway (rays, accessories, supplying system of traction power, railway signal information, etc.); Welding materials: soldering iron, solder wire, solder, etc.
- **SI products of high-tech industry:** Mechanical parts at high quality standard: microelectronics; Clusters of aerospace components, flying equipment, etc.



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Conditions to enjoy SI incentives

The Draft Decree supplements conditions for projects to enjoy incentives, which are understood as technical criteria for competent authorities to evaluate when reviewing and approving application dossiers for certification of incentives, thereby introducing stricter requirements for projects applying for SI incentives, specifically:

- The project manufacturing SI products **applies modern, high-tech production processes**, with quality meeting national and international standards or standards of reputable customers;
- The main equipment in the technology line is updated with **new technologies** in the project's industry **not more than 05 years** from the time of investment;
- The quality management system must meet specialized international standards, **encouraging international standards on quality management e.g. ISO 9001:2015** or equivalent;
- Projects must comply with environmental standards and technical regulations as prescribed by Vietnamese law, **encouraging international environmental standards e.g. ISO 14000** or equivalent;
- The number of **high-tech technicians directly involved in production with university degrees or higher** must reach at least **2.5% of the total number of employees** of the project. The number of experts directly involved in **quality management, production management and R&D** must reach at least **1% of the total number of employees** of the project. (The Draft Decree also stipulates that the MOIT will have specific regulations on criteria for confirmation of this condition);

Preferential policies for SI projects

The Draft Decree supplements the following incentive scheme:

Credit support

- Support to subsidize interest rates through commercial banks for medium and long-term loans of enterprises to implement investment projects to manufacture SI products.

Environmental protection support

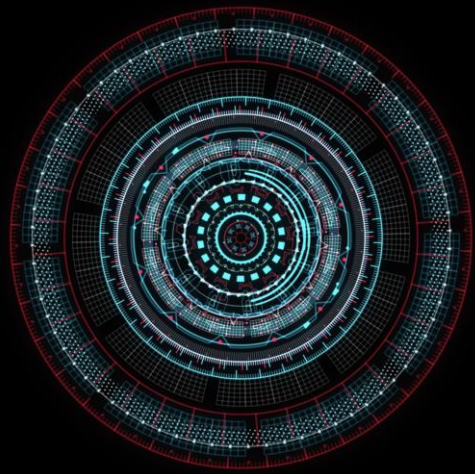
- Support to build a centralized solid waste treatment zone and a centralized wastewater treatment system meeting environmental standards from the development investment funds of the local and Central budgets for economic zones, industrial zones and clusters leasing at least 20% of the land area for investment projects manufacturing SI products;
- Loans with preferential interest rates, post-investment interest rate support from Vietnam Environmental Protection Fund, Environmental Protection Fund and Local Development Investment Fund for investment, treatment and environmental protection of projects.

Legal support

- SI enterprises are allowed to participate in the Legal Support Program for the purpose of providing information, fostering legal knowledge and providing legal advice.

Inspection, assessment, quality certification support

- Financial support from the SI Development Program for expenses related to testing, inspection, inspection and product quality certification activities;
- The level of support is from 50% to 100% of the expenses, depending on expense types and suppliers.



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Deloitte Vietnam's points of view

The Draft Decree has consolidated regulations and policies for SI development, showing high consistency with other relevant regulations such as tax and investment laws. The Draft Decree has expressed the Government's willingness in reforming policies and supporting the enterprise community in SI sector. Accordingly, what are the opportunities and challenges for enterprises?

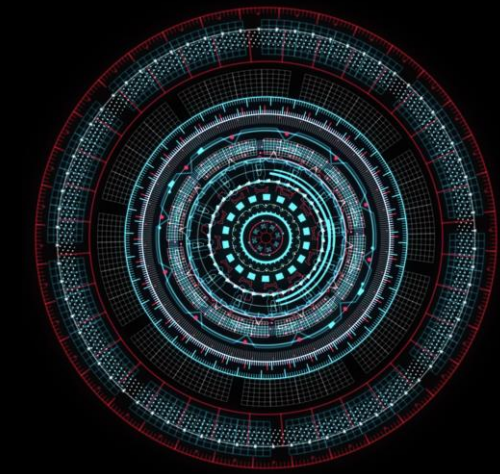
- **Opportunities:** The Draft Decree provides a clear and comprehensive concept of SI (covering processing activities and auxiliary materials) and simultaneously clarifies the criteria to demonstrate the increase in production capacity of the expansion investment project, thereby creating more favorable conditions for enterprises in the process of application for incentives. In addition, the Draft Decree also supplements a range of products to the list of SI products prioritized for development, accordingly, expanding the opportunities to enjoy incentives for enterprises manufacturing SI products that were previously not included in the List enclosed with Decree No. 111.
- **Challenges:** The Draft Decree introduces more stringent and comprehensive technical conditions such as criteria on technology, production process, capacity and quality of labor involved in the production stages of SI products, thereby imposes higher requirements for the quality of projects entitled to SI incentives. The addition of this condition is also a challenge for enterprises in improving project capability, ensuring incentives conditions upon preparing dossiers for approval of SI incentives.

What should enterprises do?

Enterprises should be active in researching and strategic planning to optimize the Government's SI incentives, specifically the benefits of saving tax costs and other incentives.

Enterprises should consider strategic matters such as:

- Is the enterprise currently enjoying the Government's optimal incentives? Are there any better incentives than the current one (E.g: SI incentives)?
- How many conditions of SI incentives enterprises can satisfy according to the current regulations, including but not limited to industrial sectors, products, investment scale etc.?
- How do the afore mentioned provisions of the Draft Decree affect enterprises' opportunities to enjoy SI incentives?
- Given the current context and trend of policies, what is the optimal strategy for the enterprises' projects to apply for SI incentives?
- When should enterprises prepare to applying for certification of incentives? What are the solutions to practical challenges during the application process?



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