



TAX ALERT

The Government's solutions to promote the development of Supporting Industry

Episode No. 01:

Draft Resolution of the Government on comprehensive solutions to promote the development of Supporting Industry: Opportunities and necessary preparation

16 June 2020

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Introduction of Deloitte's alert series on the Government's solutions to promote the development of Supporting Industry

The development of Supporting Industry ("SI") is one of the most important solutions for Vietnam to improve the quality and competitiveness of the economy, develop sustainably and avoid the middle income trap. The Government's objective in SI development is to promote the manufacture of SI products for domestic production and export, and participation in global value chains. In recent years, SI has been the spearhead prioritized for development of Vietnam's industrial development policy, accordingly the Government has offered many incentive policies to promote stronger SI growth.

As SI has always been an attractive destination for foreign investment inflows and also one of the driving forces for Vietnam's economic development in recent years, changes in the Government's incentive policies have a significant impact on investment strategies of enterprises; accordingly, can shape the development of the entire industries and the markets.

Wishing to partner along with your business development, Deloitte Vietnam is pleased to provide you a **series of alerts on Government's solutions to promote the development of SI**, including:

- **Episode No. 01 - Draft Resolution of the Government** on comprehensive solutions to promote the SI development;
- **Episode No. 02 - Draft Decree** amending Decree No. 111/2015/ND-CP ("Decree No. 111") dated 03 November 2015 of the Government on SI development.

In each alert, we will not only keep you posted with new contents and updates on the Government's solutions, the amendments and supplements of regulations on SI; but also provide our expert analysis and assessment of the potential impacts of these changes, upon our discussions with the Government's specialized branches and Deloitte's practical experience, thereby proposing appropriate recommendations for your consideration. Being the only consulting firm involved in the process of commenting the Decree amending Decree No. 111, Deloitte would continue to follow up with the process of developing and finalizing the Draft Resolution and the Draft Decree to update you on the important changes in the drafting process.

Through these alerts, Deloitte would like to provide useful information for your company to stay on top of the changes in incentive policies, hence ready to seize the incentive opportunities from the amended Decree. Especially in the context that the economy is being negatively affected by the Covid-19 pandemic, the potential incentive policies for SI will help reduce the financial burden for the enterprise, and at the same time open new doors to expand production and business, increase market share to overcome the crisis, and create a foundation for sustainable business development in the future.



Episode No. 01:

Draft Resolution of the Government on comprehensive solutions to promote the development of SI: Opportunities and necessary preparation

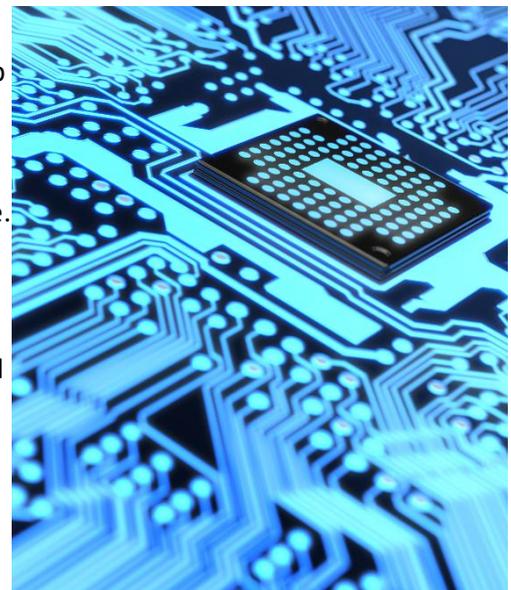
The introduction of the first Draft Resolution with comprehensive solutions for the development of SI

Supporting industry is important for economic restructuring towards industrialization and modernization, improving labor productivity, added value and competitiveness, enhancing the contribution of processing and manufacturing industries in the economic structure. The development of SI also helps to increase the ability to attract foreign direct investment ("FDI"), accelerate the acquisition, transfer of technology and promote the development, and deep participation of domestic enterprises into the global value chains of multinational corporations.

In recent years, the legal system and policy for the development of SI have been gradually progressed step by step with the promulgation of the Government's Decree No. 111 dated 03 November 2015 on SI development and related policies, which made certain contribution to improve the production capabilities of SI products.

In reality, the implementation of existing policies on SI has shown some notable limitations and problems, such as:

- **Firstly**, the framework and policies on SI need to be further improved to keep up with the development requirements, showing consistency, stability and avoiding obstacles in the implementation process. Policies to develop key industries such as automobiles, mechanics, electronics, textiles, footwear to create markets for SI products also need to be improved to be more effective.
- **Secondly**, although the production and technology levels of enterprises have been gradually improved, domestic SI products are still simple components and parts, with medium and low technology content, contributing only little value in the product value structure. Most SI enterprises in Vietnam are small scale with limited production management capacity, lacking of resources to invest, to innovate technology and to improve production capability.
- **Thirdly**, the quantity and quality of human resources have not met the SI's requirements.
- **Fourthly**, the ability to self-supply the SI products is inadequate. The trade deficit of raw materials, components and spare parts is very large, causing the localization rate of industries to still be low.



Therefore, although there are many opportunities to participate in the global production chain in the context of increasing FDI inflow to Vietnam, Vietnamese SI enterprises are still unable to provide components and spare parts that meet the requirements of customers.

The above limitations arise from many reasons. So far, there are leading enterprises which could participate in the regional and international production chains and play a leading role in the development and spillover in the industries. The domestic market capacity is still small, not ensuring the scale of economic production capacity for SI products, while the export market is subject to stiff competition. Vietnam has almost no major industrial products which are able to compete with the equivalent imported products, and lack of a supply source of basic materials. In addition, the Government's investment resources and supports for prioritized industries and SI are still limited and not effective enough, as well as not yet commensurate with the scale and role of industries and SI. Policies on the development of SI are still under process of establishing and completing towards synchronization and consistency. State management on SI is weak, the SI sector has not been identified in the national statistical system; there has not been any national standards for SI. On the other hand, the coordination of policy making among ministries, branches at central and localities is still ineffective, not meeting practical requirements, lacking synchronism, etc.

Accordingly, the Government has drafted a Resolution on solutions to promote the development of SI in Vietnam ("Draft Resolution") in order to remove difficulties and obstacles in mechanisms, policies and to improve the investment and environment for doing business, creating favorable conditions for SI enterprises to develop and improve their competitiveness and at the same time improve the effectiveness of state management and supervision of SI.

Deloitte's comments

Previously, the Government issued the policies to develop SI, but while encouraging they were still reasonably limited, such as: Decision No. 34/2007/QĐ-BCN on approval of SI development planning to 2010 with a vision to 2020, Decision No. 12/2011/QĐ-CP on the policy of developing a number of SI; or scattered in different legal documents such as: Decision No. 1556/QĐ-TTg on approving the scheme to support the development of small- and medium-sized enterprises in the field of SI, Resolution No. 63/NQ-CP in 2014 on a number of tax solutions to remove difficulties and obstacles, to promote the development of enterprises, Law No. 71/2014/QH13 on tax incentives for SI, Decree No. 111 on the development of SI, etc. Hence, until now, there has not been any comprehensive policy document providing an overall direction for the development of SI in Vietnam.

Therefore, once issued, the Resolution on solutions to promote the development of SI will be the first comprehensive document on the SI development policy with great orientations and new mechanisms, in accordance with international commitments such as: policies strengthening the linkage between foreign and domestic investment, developing SI in association with the development orientation of industries prioritized for development, investing in developing downstream industries, etc. With the orientation and vision of mid- and long-term development, the Resolution will be a lead for building a system of legal documents that are coherent, synchronous and harmonious, helping solutions on the development of SI in Vietnam to achieve the highest efficiency.

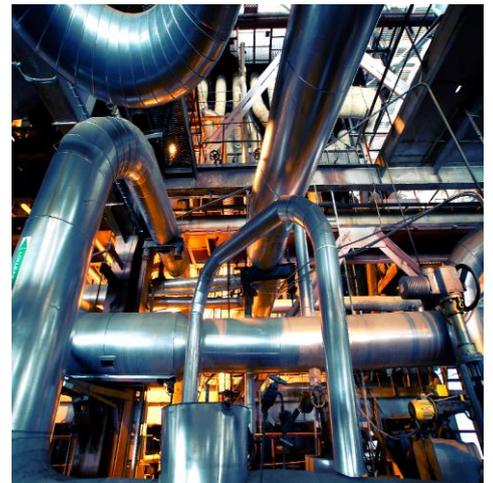
Solutions to promote SI development : Opportunities and necessary preparations

The entire Draft Resolution has shown the Government's policy to continue to prioritize the development of Supporting Industry to meet the production and domestic consumption needs of prioritized industries, to deeply involve in the production network and global value chain, focus on in-depth development, mobilizing resources from all economic sectors, especially from FDI enterprises and domestic small and medium-sized enterprises.

General objectives of the Government:	2025	2030
 The rate of meeting essential needs for domestic production and consumption	▶ 45% (11% of the industry-wide value)	▶ 70% (14% of the industry-wide value)
 Number of qualified enterprises directly supplying assembling enterprises and multinational corporations in the territory of Vietnam	▶ About 1,000 businesses (including 30% domestic enterprises)	▶ About 2,000 enterprises

Accordingly, the specific objective is to focus on the development of the fields of spare parts and components (metal parts, plastic and rubber spare parts and electrical and electronic spare parts), SI for textile - footwear (raw materials and accessories) and SI for high-tech industry.

With that spirit, the Draft Resolution sets out the key tasks and solutions for the development of SI with the coordination of implementation among the involved ministries and branches. These tasks and solutions bring many opportunities for SI enterprises and accordingly, they need to have the necessary preparation of industrial competencies to seize these opportunities.



Solutions to promote SI development : Opportunities and necessary preparations (cont.)

The following solutions provide opportunities for enterprises in the SI

Solution	Targeted mission	Authority in charge
1. Develop, complete and implement effectively and synchronously the mechanisms and policies to ensure favorable conditions for the development of SI	Amend and supplement SI development policies:	<ul style="list-style-type: none"> Ministry of Industry and Trade
	<ul style="list-style-type: none"> Revise Decree No. 111 issued by the Government on development of SI to suit the practical requirements of SI, ensuring the consistency and alignment with the provisions of the laws on investment and taxation. Study and revise the SI development program in the Prime Minister's Decision No. 68/QD-TTg dated 18 January 2017 in accordance with the industry development requirements. 	
	Study and propose policies to promote the development of a number of industries prioritized for development in order to create a market for SI to develop and suit the characteristics of each industry:	<ul style="list-style-type: none"> Ministry of Industry and Trade Ministry of Information and Communication
	<ul style="list-style-type: none"> Formulate a strategy for development of textile and footwear industry up to 2030, with orientations toward 2035; develop a sustainable development program for the textile and footwear industry from 2021 to 2030 to remove "bottlenecks" on raw materials, fabric production, infrastructure support, human resource training and technology 4.0 application, greening the textile and footwear industry; Study and develop mechanisms, policies and solutions to develop SI enterprises for information technology and telecommunications industry, electronics industry, with priority given to developing SI enterprises for manufacture of 5G technology products, IoT, AI, Robotic technologies, etc.; Propose the planning and investment of a number of concentrated industrial parks in the model of industrial cluster to produce electronic components, spare parts, mechanical engineering, manufacture and assemble automobiles and important textile - footwear raw materials with appropriate support mechanisms and incentives. 	
	Complete and simplify tax policies and procedures to facilitate favorable conditions for industrial enterprises and SI enterprises.	<ul style="list-style-type: none"> Ministry of Finance
2. Supplement, complete the incentive policies for SI	Tax incentives:	<ul style="list-style-type: none"> Ministry of Finance
	<ul style="list-style-type: none"> Amend the Law on Value Added Tax ("VAT") on the time-limit refund of VAT on imported machinery and equipment to form fixed assets of enterprises making products in SI and incentivized industries; Apply the special consumption tax with a term of 05 to 10 years in the direction of no taxation on the added value generated domestically for domestically manufactured and imported cars; Adjust the tax rates on automobile engines and gearboxes with a term up to 2025 equivalent to the commitment level in the ASEAN Trade in Goods Agreement ("ATIGA"). 	

Solutions to promote SI development: Opportunities and necessary preparations (cont.)

Solution (cont.)	Targeted mission	Authority in charge
2. Supplement and complete incentive policies for SI (cont.)	<p>Credit incentives:</p> <ul style="list-style-type: none"> Promulgate procedures for investment credit with preferential interest rates for industries prioritized for development and SI by 2025 with a loan term of up to 10 years through credit institutions; Direct the credit institutions to provide loans with preferential interest rates by making compensation for such interest rates from the state budget, local budgets, ODA and foreign concessional loans. Deploy preferential credit loan package of approximately VND 130,000 billion within 5 years for industrial enterprises prioritized for development and SI. 	<ul style="list-style-type: none"> State Bank Ministry of Finance Ministry of Planning and Investment
	<p>Land-related incentives and support for handling environmental issues:</p> <ul style="list-style-type: none"> Supplement and finalize preferential policies on land and supports for the handling of environmental issues for projects manufacturing SI products and policies to support the access to land which meets the requirements of SI; Modify and revise the regulations on land rental fee exemption and reduction for Technical support centers for industrial development, projects manufacturing SI and key mechanical products in 2020; Supplement the list of incentivized environmental protection activities in the direction of supporting the projects in textile dyeing and leather tanning which have investment in wastewater treatment system; in production of clean and renewable energy; manufacturing, import and usage of machinery, equipment and transportation vehicles using renewable energy; production and consumption of eco-friendly products and services, which are eco-labeled; application of the circular economic model and the best available technology in production and business; Research and develop solutions to support SI enterprises in environmental remediation, especially in the fields of textiles and footwear (dyeing, tanning, etc.); Provide supports on infrastructure investment costs, environmental treatment costs for projects manufacturing SI products. 	<ul style="list-style-type: none"> Ministry of Natural Resources and Environment People's Committees of provinces and centrally controlled municipalities
	<p>Other supporting policies:</p> <ul style="list-style-type: none"> Focus on building a database on enterprises, SI production, creating favorable conditions for enterprises to access necessary linked information quickly and conveniently for the purpose of analysis, evaluation and orientation for investment industry selection; Create favorable conditions for SI enterprises to easily access the capital from the National Technology Innovation Fund and the National Fund for Science and Technology Development, the Small- and Medium-sized Enterprise Development Fund and the Credit Guarantee Fund for small- and medium-sized enterprises. 	<ul style="list-style-type: none"> Ministry of Industry and Trade Ministry of Planning and Investment Ministry of Science and Technology
3. Promote FDI attraction	<ul style="list-style-type: none"> Increase the attraction of large FDI enterprises from key foreign markets; FDI enterprises which invest in producing finished products and set up regional-level factories in Vietnam to facilitate domestic SI enterprises to participate in the supply chains of multinational corporations; Attract strategic investors, multinational corporations to invest, set up headquarters, research - development ("R&D") centers and innovation centers in Vietnam. 	<ul style="list-style-type: none"> Ministry of Industry and Trade Ministry of Planning and Investment

Solutions to promote SI development: Opportunities and necessary preparations (cont.)

Solution (cont.)	Targeted mission	Authority in charge
4. Develop market	<ul style="list-style-type: none"> Strengthen international cooperation to support SI enterprises to expand markets and take advantage of markets under the signed free trade agreements; Develop mechanisms to support export processing enterprises to sell goods and participate in domestic supply chains; Actively remove barriers, prevent monopoly acts and unfair competition. 	<ul style="list-style-type: none"> Ministry of Industry and Trade Ministry of Finance
5. Improve the quality of enterprises and human resources	<ul style="list-style-type: none"> Build Technical Centers to support businesses to innovate, research and develop, improve competitiveness and productivity of product, creating opportunities for deep participation in the global supply chain; Strengthen international cooperation to improve the capacity of SI enterprises through cooperation in technology transfer and human resource training; Consult, seek, introduce and support the transfer of modern production technologies and intellectual property development; support the development and application of management systems and tools for improving productivity and quality; Promote training and improve the qualification of labor in the field of SI. 	<ul style="list-style-type: none"> Ministry of Industry and Trade Ministry of Finance Ministry of Labor, Invalids and Social Affairs

To seize the opportunity, the enterprises need to prepare for industrial competencies

Solution	Targeted mission	Authority in charge
1. Selective FDI attraction	<ul style="list-style-type: none"> Attracting FDI is associated with the conditions to increase the value-added generated domestically taking into account the territorial linkage, the field of investment attraction; It is discouraged to license FDI projects producing components and spare parts with small-scale, low technological content, using outdated technology, potentially causing environmental pollution and resource abuse. 	<ul style="list-style-type: none"> Ministry of Industry and Trade Ministry of Planning and Investment
2. Increasing requirements on localization rate	<ul style="list-style-type: none"> Promulgating regulations on binding investors to use the equipment, components and materials that can be produced or are capable of being produced domestically in public investment projects or projects that are entitled to preferential policies and other specific projects. 	<ul style="list-style-type: none"> Ministry of Industry and Trade
3. Improve the quality of business to meet national and international standards	<ul style="list-style-type: none"> Revise, develop and evaluate national standards (TCVN); national technical standards (QCVN) for SI products in harmony with international standards, in line with international, regional commitments and legal regulations; Apply national standards, international standards, regional standards, foreign standards in the field of SI to enterprises producing industrial products; Build national data on national standards, national technical standards, international standards, regional standards, foreign standards and data on organizations of SI inspection and certification. 	<ul style="list-style-type: none"> Ministry of Science and Technology

Solutions to promote SI development : Opportunities and necessary preparations (cont.)

To seize the opportunity, the enterprises need to prepare for industrial competencies

Solution (cont.)	Targeted mission	Authority in charge
4. Increase environmental responsibility	<ul style="list-style-type: none"> Amend Decision No. 16/2015/QĐ-TTg on regulations of recall and disposal of discarded products in 2020; Develop a mechanism to collect fees for disposal of imported products and domestic products; Regulate on the binding responsibility of importing enterprises for the disposal of discarded products of electronics, automobiles, etc. in the direction of payment and refund of disposal expenses for discarded products at a certain rate, as a percentage (5% at the minimum) of the price of imported products; Adjust the wastewater standards of a number of industries such as automotive engineering, electronics, textile, dyeing, tanning, etc. to ensure conformity with technical, technological and socio-economic development levels of the country in each period and in harmony with advanced countries in the region and in the world. 	<ul style="list-style-type: none"> Ministry of Natural Resources and Environment
5. Enhance inspection and supervision	<ul style="list-style-type: none"> Establish an interdisciplinary taskforces to audit the origin of imported and exported goods eligible for customs incentives, in line with international practices; Coordinate with the relevant ministries and branches in effectively supervising the transfer pricing and tax fraud phenomenon in order to create a healthy competitive environment; Formulate a Plan on application of digital technology and advanced technique in order to trace the origin of industrial products in industries prioritized for development in order to enhance the inspection on imported goods quality and the use of technical barriers to reasonably protect the domestic market; Complete the procedures of inspection, testing, certification of technical safety and environmental protection for domestically manufactured and imported cars; Strengthen quality control measures for imported CBU cars, restrict poor quality products, and trade frauds to penetrate the Vietnamese market. 	<ul style="list-style-type: none"> Ministry of Industry and Trade Ministry of Finance Other related ministries

Deloitte's comments

The Draft Resolution provides comprehensive solutions with tasks associated with the responsibilities of ministries and branches in order to implement synchronously, harmoniously and effectively mechanisms and policies to promote the development of SI in line with the Government's orientation.

Many opportunities are opened for SI enterprises, especially, preferential and supportive policies are strengthened to create conditions for SI enterprises to innovate, access capital and improve competitiveness to deeply participate in the global value chain.

Accordingly, enterprises need to have the necessary preparation to take advantage of solutions promoting the industry to turn into opportunities in the context of policies being built and perfected toward focusing on in-depth development, increasing the localization requirements, meeting the national and international technical standards, selective incentive policies to attract investment, enhancing the responsibility of enterprises in protecting the environment, promoting the interdisciplinary inspection and supervision in the State management.

Deloitte's recommendations

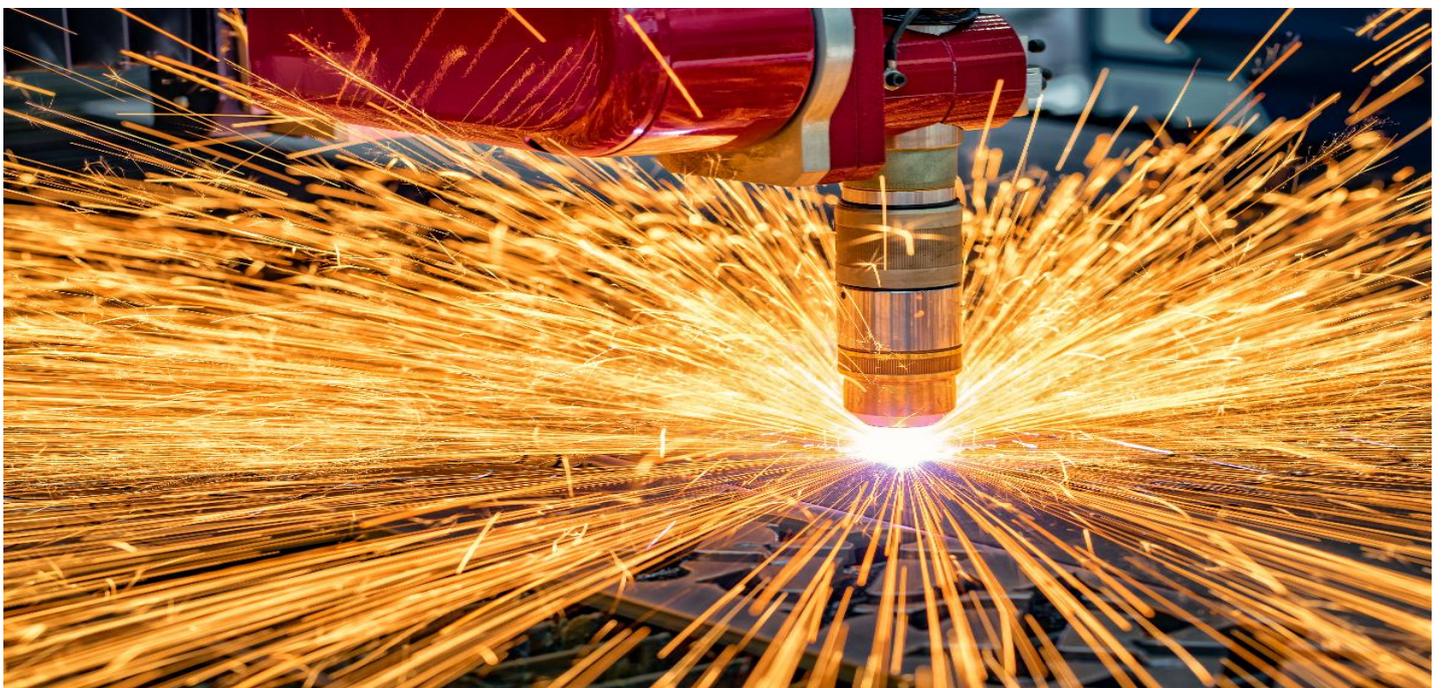
The Resolution, once being officially issued, will create a premise for the Government as well as the ministries to develop, amend and complete the legal documents system on Supporting Industry in a comprehensive and synchronized manner. In the context that the Draft Resolution is expected to be issued soon, Deloitte predicts that there will be changes in mechanisms and policies regulating Supporting Industry enterprises in the near future. We recommend the valued enterprise to:

- Proactively review your actual situation in order to meet the conditions to enjoy preferential treatments for SI enterprises in the past, present and future, and have plans to improve standards and processes to meet the requirements and ensure compliance;
- Understand the development orientation for SI of Vietnam Government in the coming time to seize the opportunities and plan necessary preparations in term of SI competencies;
- Review risks, incentives opportunities with the current supply chains, plan to restructure future supply chains to adapt with the policy directions, proactively take deeper integration into global supply chain;
- Pay attention to preparing necessary resources, especially improving the quality of human resources to meet advanced technology; and
- Understand the inspection/audit trends of the competent authorities such as tax authorities, Ministry/ Departments of Industry and Trade, investment licensing authorities, environmental protection management authorities, etc. which are increasingly aggressive with innovated approach in industrial inspection in order to better prepare for the inspections/audits.

In the upcoming newsletters, in addition to the progress of developing and issuing the Draft Resolution, Deloitte will update you about changes to the incentive policies as well as the conditions that need to be met to enjoy Supporting Industry incentives in the framework of the Draft Decree amending Decree No. 111 issued by the Government on the development of Supporting Industry which is being drafted by the Ministry of Industry and Trade.

In cooperation with Deloitte of Southeast Asia, experienced team of Deloitte Vietnam's Global Investment and Innovation Incentives (Gi3) was established to assist valued clients in evaluating, seeking, assisting the application of investment incentive opportunities in Vietnam as well as cross-border investment incentives.

Should you have any concerns, please directly contact us for assistance.





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