VIETNAM:
MAXIMIZING BENEFITS FROM INVESTMENT INCENTIVES

Guide to preferential tax rates, customs duties, land rents, efficient payroll structures, and benefits under international trade treaties

VDB | Loi

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Vietnam investment regime provides for a comprehensive and broad range of various business incentives. However, the regime of benefits and eligibility criteria are set out in very many laws, regulations and clarifying instructions. When considering **whether your project is benefiting from available incentives to maximum extent**, it is crucial to have a full and big picture view of the incentive regime, and also of the general logic based on which this part of regulations is structured.

This note puts together the list of major incentive measures, preferential rates and other benefits that should be considered by all investors.

Note that the incentives are not universally applicable to any and all businesses. It is important to keep in mind the interpretation practice of regulatory authorities, their requirements to application dossiers, contents of submitted business plans. It is also important to properly structure the equity vs. debt capital ratio of your project company.

CONTENTS:

TAX INCENTIVES

Standard corporate income tax ("**CIT**") rate in Vietnam is 20%. However, tax framework provides that certain projects can benefit from preferential CIT rate for a certain period of time or throughout the whole project life cycle.

The main factors that determine which preferential regime may apply are:

1. Industry/sector of the project ("**business sector**"), in particular:
    a. projects under **special incentives** regime; and
    b. projects under **normal incentives** regime.
2. **Location** of the project within Vietnam, in particular:
    a. projects in areas with **difficult economic conditions**;
    b. projects in areas with **extremely difficult economic conditions.**

Based on the above criteria, projects are tentatively divided into the following categories:

Business sectors	
Projects falling under "**special incentives**" regime	Projects falling under "**normal incentives**" regime
Production of renewable energy, clean energy, waste-to-energy processes	Manufacture of steel billets from iron ore, high-grade steel, alloys
Production of composite materials, light building materials, rare and valuable materials	Manufacture of oil, pharmaceutical chemistry, base chemicals and rubber
Production of software products, digital products, key IT products, software services under information technology laws; production of network security products and provision of network security services under cyber security laws; production of products derived from technological advances under science and technology laws	Investment in power generation from exhaust gas of building material factories in order to save energy and protect the environment.
Production, propagation and crossbreeding of plants, domestic animals, aquatic breeds, development of hi-tech plants for forestry	Construction, development of industrial complex infrastructure
Manufacture of sawmill products; manufacture of artificial planks, including: plywood, joinery planks, MDF	Construction of apartment buildings for workers in industrial zones, export processing zones, hi-tech zones, economic zones; construction of dormitories for students and housing for beneficiaries of incentive policies; investment in construction of functional urban areas (including kindergartens, schools, hospitals) for workers
Investment in development, operation and management of infrastructural works of industrial complexes	Manufacture of environment-friendly products that are granted Vietnam Green Label by the Ministry of Natural Resources and Environment; products from recycling, treatment of solid wastes (domestic, industrial hazardous wastes) by waste treatment facilities
Construction of social housing and relocation housing	Manufacture of medical devices, construction of warehouses for preservation of pharmaceuticals and medicines for human use in preparation for disasters and dangerous epidemics

<table>
<tr><th colspan="2">Locations</th></tr>
<tr><th>Locations with
difficult economic conditions</th><th>Locations with
extremely difficult economic conditions</th></tr>
<tr><td>As per list of geographical areas defined in Annex 3 of the Decree 31/2021/ND-CP dated on 26 March 2021 guiding the Law on Investment (LINK) (“**Investment Law Decree**”)</td><td>As per Annex 3 to Investment Law Decree.</td></tr>
<tr><td>**Also note** that projects located in:
• Industrial zones,
• export processing zones,
• industrial complexes established under regulations of the Government,
also benefit from the same incentives as those located in areas with **difficult economic conditions**.</td><td>**Also note** that projects located in:
• Economic zones,
• hi-tech zones, including concentrated IT zones established under the Prime Minister’s Decisions,
also benefit from the same incentives as those located in areas with **extremely difficult economic conditions**.</td></tr>
</table>

Possible preferential CIT rates / holidays may include:

- 10% CIT rate for the whole term of the project
- 10% CIT for 15 years
- 15% CIT for the whole term of the project
- CIT holiday for the first four (4) years and 50% reduction of CIT payable for subsequent five (5) to nine (9) years
- CIT holiday for the first two (2) years and 50% reduction of CIT payable for subsequent four (4) years

The table below illustrates which of the above regimes may apply to a project depending on its business sector and location:

<table>
<tr><th></th><th colspan="2">Business sector</th><th colspan="2">Location</th></tr>
<tr><th></th><th>Projects falling under **“special incentives”** regime</th><th>Projects falling under **”normal incentives”** regime</th><th>Locations with **difficult** economic conditions</th><th>Locations with **extremely difficult** economic conditions</th></tr>
<tr><td rowspan="2">10% CIT – whole term</td><td colspan="4">• Income of enterprises in the public sector fields such as education – training, vocational training, healthcare, culture, sports, environment, and judicial expertise
• Income from production, propagation and cross-breeding of plant varieties, animal breeds
• Investment in post-harvest preservation of agriculture products
• Preservation of agriculture products, aquaculture products, and foods, including direct investment in preservation and lease of preservation equipment</td></tr>
<tr><td></td><td></td><td>Income of enterprises from planting, cultivating, protecting forests; farming, husbandry, aquaculture in disadvantaged areas
Income from forestry in disadvantaged areas</td><td></td></tr>
</table>

<table>
<tr><th></th><th colspan="2">Business sector</th><th colspan="2">Location</th></tr>
<tr><th></th><th>Projects falling under "special incentives" regime</th><th>Projects falling under "normal incentives" regime</th><th>Locations with difficult economic conditions</th><th>Locations with extremely difficult economic conditions</th></tr>
<tr><td rowspan="2">10% CIT – 15 years</td><td></td><td></td><td></td><td>Any newly invested projects</td></tr>
<tr><td colspan="4">Income from:
• scientific research and technology development
• cultivation of high technology, cultivation of high-tech enterprises
• venture capital investment in development of high technologies
• investment in construction, operation of facilities for cultivation of high technologies, cultivation of high-tech enterprises
• investment in development of water plants, power plants, water supply and drainage system; bridges, roads, railroads, airports, seaports, air terminals, train stations
• software production
• manufacture of composite materials, light building materials, rare and valuable materials
• production of renewable energy, clean energy, waste-to-energy process, development of biotechnology
• investment in environmental protection, including: manufacture of environmental pollution reduction devices, environment monitoring and analysis devices; pollution reduction and environmental protection; collection, treatment of wastewater, exhaust, solid wastes; recycling or wastes
• high-tech enterprises, agriculture enterprises applying high technologies
• investment in manufacturing (except for manufacturing of products subject to special excise tax and mineral extraction projects) that satisfy any of the following criteria: (i) initial capital is at least VND 6,000 billion disbursed within 03 years from the date of investment license and project regularly has over 3,000 employees after not more than 3 years from first year of revenue generation or (ii) initial capital is at least VND 6,000 billion disbursed within 03 years from the date of investment license and the total revenue is at least VND 10,000 billion per year after not more than 3 years from the first year of revenue generation.
• income of an enterprise for execution of a new project of investment in manufacturing of products on the list of ancillary products given priority as defined by relevant regulations.</td></tr>
<tr><td>15% CIT - whole term</td><td colspan="4">income of enterprises from farming, husbandry, processing of agriculture and aquaculture products in areas other than disadvantaged areas and extremely disadvantaged areas</td></tr>
<tr><td rowspan="2">CIT holiday for year 1-4, 50% of CIT for year 5-13 (9 years)</td><td colspan="4">Investment projects entitled to CIT 10% for 15 years (see above)</td></tr>
<tr><td></td><td></td><td colspan="2">Income from the implementation of new investment projects in the socialized fields in geographical areas with difficult or particularly difficult socio-economic conditions</td></tr>
<tr><td>CIT holiday for year 1-4, 50% of CIT for year 5 -9 (5 years)</td><td colspan="2">Income from the implementation of new investment projects in the socialized fields not in geographical areas with difficult or extremely difficult socio-economic conditions</td><td></td><td></td></tr>
</table>

<table>
<tr><th></th><th colspan="2">Business sector</th><th colspan="2">Location</th></tr>
<tr><th></th><th>Projects falling under "special incentives" regime</th><th>Projects falling under "normal incentives" regime</th><th>Locations with difficult economic conditions</th><th>Locations with extremely difficult economic conditions</th></tr>
<tr><td rowspan="3">CIT holiday for year 1-2, 50% of CIT for year 3 - 6</td><td></td><td></td><td>Income from the implementation of new investment projects in geographical areas with difficult socio-economic conditions</td><td></td></tr>
<tr><td colspan="4">Income from the implementation of new investment projects on production of hi-class steel, energy-conserving products, machinery and equipment for agriculture, forestry, fisheries and salt production, irrigation and drainage equipment, livestock and aquatic animal feed; and development of traditional crafts and trades (including building and development of traditional handicraft production, farm produce and food processing and production of cultural products</td></tr>
<tr><td></td><td></td><td>Income from performing new investment projects in industrial parks (except for industrial parks located in socially and economically advantaged areas)</td><td></td></tr>
</table>

Also important to note:

- for those **projects that fall under several categories** based on different factors, the project owner in most cases can chose which of the incentives regime it would like to follow.
- the preferential CIT rate regime generally applies from the first year of generating revenue and the tax holiday starts from the first year of generating taxable profit (or the fourth year if project is in loss position).
- there are exceptions for certain types of income including capital gain or "other income" category.
- project company must follow and comply with corporate and accounting regime to be able to qualify for tax incentives. Certain projects must satisfy criteria and conditions to be able to qualify for tax incentives, for example in socialized sectors.
- taxable loss **can be carried forward to subsequent five years**. Project company is required to declare this carrying-forward sheet in an appendix attached to the annual CIT return.

IMPORTS

In terms of imports, Vietnam framework provides investment incentives for project companies upon importation of:

1. fixed assets; and
2. raw materials

The table below summarizes eligibility criteria for exemption from import duties on imported goods/products to form **fixed assets**:

<table>
<tr><th></th><th></th><th colspan="2">Business sector</th><th colspan="2">Location</th></tr>
<tr><th></th><th></th><th>Projects falling under “special incentives” regime</th><th>Projects falling under “normal incentives” regime</th><th>Locations with difficult economic conditions</th><th>Locations with extremely difficult economic conditions</th></tr>
<tr><td rowspan="4">The following projects can benefit from import duty exemption:</td><td>1</td><td>Projects listed in Investment Law Decree, annex 3, section A</td><td>Projects listed in Investment Law Decree, annex 3, section B</td><td>Projects listed in Investment Law Decree, annex 3.</td><td>Projects listed in Investment Law Decree, annex 3.</td></tr>
<tr><td>2</td><td colspan="4">The investment project’s capital is at least 6,000 billion VND, at least 6,000 billion VND is disbursed within 03 years from the issuance date of the Certificate of Investment Registration or written approval for investment guidelines, and one of the following criteria is satisfied: (i) Annual revenue is at least 10,000 billion VND within not more than 03 years after revenue is generated, or (ii) there are at least 3,000 employees within not more than three years from the first year of revenue generation</td></tr>
<tr><td>3</td><td colspan="4">The investment project is located in the rural area and has at least 500 employees (not including part-time employees and employees with employment contracts of less than 12 months).</td></tr>
<tr><td>4</td><td colspan="4">High-tech enterprises, science and technology enterprises, science and technology organizations defined by regulations of law on high technology, science and technology.</td></tr>
<tr><td rowspan="3">Import duty exemptions apply to the following fixed assets:</td><td>1</td><td colspan="4">Machinery and equipment; components, parts, spare parts for assembly or operation of machinery and equipment; raw materials for manufacture of machinery and equipment, components, parts, or spare parts of machinery and equipment</td></tr>
<tr><td>2</td><td colspan="4">Special-use vehicles in a technological line directly used for a manufacturing project</td></tr>
<tr><td>3</td><td colspan="4">Building materials that cannot be domestically produced</td></tr>
<tr><td>Exemption procedure:</td><td></td><td colspan="4">In order to be exempt from import duty for this type of goods, the project company must register the list of tax-free goods expected to be imported before registering the first customs declaration.
The exemption of import duty also applies to project expansions.</td></tr>
</table>

The table below summarizes eligibility criteria for exemption from import duties on imported **raw materials** for manufacturing:

<table>
<tr><th></th><th></th><th colspan="2">Business sector</th><th colspan="2">Location</th></tr>
<tr><th></th><th></th><th>Projects falling under “special incentives” regime</th><th>Projects falling under “normal incentives” regime</th><th>Locations with difficult economic conditions</th><th>Locations with extremely difficult economic conditions</th></tr>
<tr><td rowspan="3">The following projects can benefit from import duty exemption:</td><td>1</td><td>Projects listed in Investment Law Decree, annex 3, section A</td><td></td><td></td><td></td></tr>
<tr><td>2</td><td></td><td></td><td></td><td>The investment project is located in an extremely disadvantaged area</td></tr>
<tr><td>3</td><td colspan="4">The investment project is owned by a high-tech enterprise, science and technology enterprise, science and technology organization defined by regulations of law on high technology, science and technology.</td></tr>
<tr><td>Import duty exemptions apply to the following raw materials:</td><td></td><td colspan="4">Raw materials, supplies and components that cannot be domestically manufactured and are imported for manufacturing of such investment projects</td></tr>
<tr><td>Exemption period</td><td></td><td colspan="4">The exemption is for five years from the commercial operation date which is the official start date of production excluding the testing time.
When the 5-year period expires, the project company shall fully declare and pay duties on the amount of imported raw materials, supplies and components that were exempt from import duties, but are not used.</td></tr>
</table>

In addition to the above, certain other specific sectors can also be entitled to import duty exemption:

- Imports serving **petroleum activities:**
  - Machinery, equipment, components, means of transport necessary for petroleum activities, including those temporarily imported for re-export;
  - Components, parts, spare parts for assembly or operation of machinery and equipment; raw materials for manufacture of machinery and equipment, components, parts, or spare parts of machinery and equipment necessary for petroleum activities;
  - Supplies necessary for petroleum activities that cannot be domestically produced.
- **Shipbuilding projects** and shipyards eligible for incentives as per regulations:
  - Imports that constitute fixed assets of the shipyard, including: machinery and equipment; components, parts, spare parts for assembly or operation of machinery and equipment; raw materials for manufacture of machinery and equipment, components, parts, or spare parts of machinery and equipment; means of transport in the technological line directly serving shipbuilding; building materials that cannot be domestically produced;
  - Imported machinery, equipment, raw materials, supplies, components, semi-finished products serving shipbuilding that cannot be domestically produced;
  - Ships for export.

VAT REFUNDS: GENERAL

In general, a project company can apply to get VAT refund under the following scenarios:

1. during construction period - with creditable VAT not less than 300 million VND, or
2. during operational period - creditable VAT corresponding to exported revenue of not less than 300 million VND.

In any case the **refunded VAT should not exceed 10% of the exported revenue.**

The project company must strictly comply with regulations on accounting and invoice regime as well as other business conditions (if applicable).

For certain business refunds may not be available. For example, investment projects for construction of houses for sale, or investment projects that do not create fixed assets.

The VAT refund can be subject to a tax audit before an official VAT refund decision is issued.

VAT ON IMPORTED GOODS

The general VAT rate on imported goods is 10%.

However, VAT exemptions can be applicable in several scenarios:

- Imported machinery, equipment, parts, and supplies serving **scientific research and technological development;**
- Imported machinery, equipment, parts, specialized vehicles and supplies serving **petroleum exploration and extraction;**
- **Airplanes (including engines), oil rigs, and ships** that cannot be manufactured in Vietnam and are imported as fixed assets or leased from a foreign party to serve manufacturing, trading, or to sublease.

IMPORT/EXPORT CUSTOMS DUTIES UNDER RELEVANT FREE TRADE AGREEMENTS

Another set of benefits can be available on the basis of multiple international trade agreements to which Vietnam is now a party. Some of the key free trade agreements ("**FTAs**") affecting large markets are summarized below:

FTA	Parties	Effective date	Main goods/business areas for which incentives are provided
CPTPP (**C**omprehensive and **P**rogressive Agreement for **T**rans-**P**acific **P**artnership)	Vietnam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia	14 January 2019 (effect in Vietnam)	i. **Trade in goods, such as:** - Footwear; - Seafood; - Rice; - Coffee, tea, pepper, cashew; - Wooden; - Textiles and apparel goods. ii. **Trade in services:** - Cross-border services; - Financial services; - Distribution - Telecommunications. iii. **Intellectual Property** iv. **E-commerce**
AHKFTA (**A**SEAN **H**ong **K**ong **F**ree **T**rade **A**greement)	ASEAN, Hong Kong (China)	11 June 2019 (effect in Hong Kong, Vietnam, Laos, Myanmar, Singapore, Thailand) 12 February 2021 (effect in other remaining countries)	i. **Trade in goods, typically:** - Agricultural products; - Seafood; - Electrical machinery and equipment; - Manufactured products. ii. **Trade in services** - Business services; - Telecommunications services; - Construction; - Financial services; - Tourism.
EVFTA (**EU** - **V**ietnam **F**ree **T**rade **A**greement)	Vietnam and 27 EU Member States	1 August 2020	i. **Trade in goods, typically:** - Rice; - Coffee; - Agricultural products; - Wood and wood products; - Computers, electronic products and components. ii. **Trade in services:** - Business services; - Environmental services; - Banking; - Insurance; - Sea freight. iii. **Intellectual property**
UKVFTA (the **U**nited **K**ingdom – **V**ietnam **F**ree **T**rade **A**greement)	Vietnam and the UK	1 May 2021	i. **Trade in goods, typically:** - Agricultural products; - Manufacturing; - Wood and wood products; - Computers, electronic products and components. ii. **Trade in services:** - Business services; - Information services; - Distribution; - Financial services; - Health and social services. iii. **Intellectual Property**

FTA	Parties	Effective date	Main goods/business areas for which incentives are provided
RCEP (the **R**egional **C**omprehensive **E**conomic **P**artnership)	ASEAN, China, Korea, Japan, Australia, New Zealand	1 January 2022	i. **Trade in goods, typically:** - Agricultural products; - Footwear; - Wood and wood products; - Seafood; - Plastics. ii. **Trade in services:** - Financial services; - Telecommunication services; - Professional services

Among other things, FTAs provide for removal of different types of customs duties when goods or services are being traded between parties to such FTAs. Some groups of goods have immediately benefited the import duty at 0% since the effective date of the FTAs. Other groups of goods are subject to the process of gradual reduction of import duties over the period of five years, eight years or ten years (depending on the type of goods).

For example, EVFTA provides that:

- the import tariff for the coffee (not roasted and not decaffeinated) exported (HS code 0901.11.00) from Vietnam and imported into the EU may be reduced to 0% immediately from the effective date of EVFTA.
- Laptops including notebooks and subnotebooks (HS code 8471.30.20) imported into Vietnam from the EU may benefit from import tariff at 0% as the effective date of EVFTA.

To gain such incentives under FTAs, the products need to qualify in accordance with the rules of origin as set out in such FTAs. Two major methodologies may apply:

1. products wholly originating from a country-member of the FTA; or
2. products not wholly originating from a country-member, but meeting the conditions of simple operations or the percentage of the cumulation of origin.

After ensuring the products to be considered as products originating from a country party of FTAs, exporters need to submit relevant documents such as a certificate of origin (C/O) to the customs authorities as the proof of origin.

EXPORT / IMPORT: EXPORT PROCESSING ZONES

Investment projects located in the **export processing zones** or qualified as **export processing enterprise** will be subject to exemption from import duty or export duty, except when they conduct the business activities of importation and distribution rights to Vietnam.

LAND USE FEE

When land is rented from the Government, certain rent exemptions for different periods can be available.

Duration of land rent exemption	To which projects can apply
Whole term of the project	Projects qualifying as special investment incentive projects **and** conducted in the areas with extremely difficult socio-economic conditions
	Housing construction projects for workers in industrial zones, export processing zones on the land leased out by the state or sub-leased from the investor of infrastructure of industrial zones, export processing zones to carry out the approved master plan
Construction period (up to 3 years from the effective date of the land lease contracts.)	Essentially all projects. Time period starts from the effective date of the land lease contracts.
3 years	"Normal incentives" projects (see above).
	New manufacturing projects, which were required by authorities to be relocated: 1. based on local planning requirements; or 2. for environmental reasons.
7 years	Projects in areas with "difficult economic conditions" (see above).

Duration of land rent exemption	To which projects can apply
11 years	Projects in areas with "extremely difficult economic conditions" (see above).
	"Special incentives" projects (see above).
	"Normal incentives" projects located in areas with "difficult economic conditions"
15 years	"Normal incentives" projects located in areas with "extremely difficult economic conditions"
	"Special incentives" projects located in areas with "difficult economic conditions"

STRUCTURING FINANCIAL CASH FLOWS AND LOANS

Loans

Generally loan interest is fully deductible for corporate income tax purpose, except for certain cases where:

1. project company's charter capital has not yet fully paid up (interest loan deduction will be rejected in pro rata with the unpaid up charter capital) or;
2. interest rate exceeds 150% of the popular rate announced by the State Bank of Vietnam (applicable for loans with non-bank organizations/non-economic organisations).

In case of a loan between related parties, the interest is deductible subject to 30% EBITDA (Earning before interest, tax, depreciation and amortization) for that fiscal year. The unutilized interest portion will be permitted to be carried forward to next five years.

There is a five percent (5%) withholding tax (WHT) applicable on loan interest paid to non-resident lender. No VAT applies on interest bearing loan.

Dividends

There is no withholding tax on **dividends** distributed to **corporate** shareholders. A five percent (5%) withholding tax applies when dividend is distributed to **individual** shareholder.

Other intragroup transactions

Other general services are subject to five percent (5%) CIT and five percent (5%) VAT.

Royalties are generally subject to withholding tax 10%.

Above tax implications can be subject to exemptions or reduction subject to relevant double tax treaties between Vietnam and the jurisdiction where the beneficiary holds nationality / residency.

EMPLOYEE BENEFITS; PERSONAL INCOME TAX; CIT DEDUCTIBILITY

Certain benefits paid to employees can be eligible to personal income tax ("**PIT**") exemption. The following table summarizes those typically applied in a company paying general salary, benefits-in-kind, allowances, etc. to its employees.

The exemptions may also be potentially be used as deduction for corporate income tax ("**CIT**") purposes.

Item	Description	Criteria and/or cap for PIT exemption	Supporting documentation requirement for BOTH deduction under Corporate Income Tax AND serve for PIT exemption
1	One-off relocation allowance for expatriate employee coming to Vietnam to reside and work	Fully exempted. Applies to the employee himself/herself only	Employment contract/collective labour agreement
2	Housing allowance (in cash or in kind and ultilities	The house rent paid by the employer shall be included in taxable income according to the actual amount of rent subject to cap of 15% of total taxable income (not including house rent itself)	Employment contract; Lease agreement, invoice, payment receipt, etc.
3	Optional medical insurance without accrual of premiums for employees (paid to onshore or offshore insurer)	Fully exempted	Employment contract/collective labour agreement; Insurance policy; payment receipt
4	Membership fees, entertainment cost	Fully exempted if not paid for a specific employee	Internal labour regulations, internal financial regulations, service contract with supplier, invoice, payment receipts, etc. and all subject to not more than one average month salary per year.
5	Tuition fee for expat's children	Fully exempted for school fees from kindergarten to high school in Vietnam	Internal Labour Regulations, employment contract, payment receipts, etc.
6	Round trip air ticket for home leave for expatriate	Fully exempted (for employee himself) once per year	Employment contract, Internal regulations, invoice, air ticket, etc. to show the route
7	Allocated expenses for business trip	Fully exempted	Internal Regulations/Financial regulations (clearly mentioning criteria and level of expenses to be entitled to) Supporting documents to prove the payments meeting the criteria under the Internal Regulations/Financial Regulations.
8	Telephone allowance	Fully exempted	Internal Regulations/Financial regulations; employment contract (clearly mentioning criteria and level of expenses to be entitled to).
9	Uniform allowance	In kinds: Fully exempted In cash: capped at 5 million VND/ year	Employment contract, invoice, payment receipt
10	Lunch/mid-shift meal allowance	In kinds: Fully exempted In cash: Capped at 730,000 VND/ month/person	Internal regulations/Employment contract, invoice, payment receipt
11	Other welfare cost (support for wedding, birthday, etc.)	Fully exempted subject to cap under CIT regulations	Internal labour regulations, internal financial regulations, service contract with supplier, invoice, payment receipts, etc. and all subject to not more than one average monthly salary per year (counted together with item #4).
12	The expenditure on shuttling employees from home to work and vice versa	Fully exempted (including individual or collective)	Internal labour regulations, Internal Financial regulations, employment contract, collective labour agreement, invoice, payments receipt
13	Training cost	Fully exempted if the training is in accordance with the employees' position	Internal regulations/Employment contract, invoice, payment receipt

PROJECT CASE STUDIES: WHICH PROJECTS CAN BENEFIT FROM A RANGE OF INCENTIVES

CASE STUDY 1: EDUCATIONAL PROJECT BY AN INVESTOR FROM SINGAPORE

A Singaporean investor has applied for investment approval to implement an educational project in Vietnam.

Specifically, the investor has been granted an investment registration certificate for building an international school in Vietnam which would lease a land plot from the Government.

The school will be built in meeting all criteria and conditions set out by the Government in terms of area, number of students, teachers, infrastructure, investment budget per student, area per student, etc.

Under the rules, this project may be potentially be eligible to benefit from **reduced 10% CIT rate** for the whole duration of the project. In addition, a **tax holiday** of 4 years exemption and half (50% reduction for subsequent 9 years may be applied.

Import duties may be equal to **0%** for equipment imported to form fixed assets.

VAT can be **refunded** in relation to the construction period.

There may be **complete land rent exemption,** if the project is conducted in the areas with extremely difficult socio-economic conditions.

If project company in Vietnam is owned by foreign corporate shareholders, **no withholding tax** should apply on dividends payable to them.

The remuneration package to employees can be structured as a combination of cash payment, and housing allowances (which would **not be subject to personal income tax** and can still be used as a deduction for CIT purposes).

CASE STUDY 2: SOFTWARE DEVELOPMENT IT CENTER

Project relating to construction of a new **software development center** when the project owner decides to build its production office on an area leased directly from the government, may be eligible to benefit from **reduced 10% CIT** rate for 15 years.

In addition, it can also benefit from **additional tax holiday of four year CIT exemption and 50% CIT rate reduction** during subsequent nine years because of the nature of the project, regardless of the location.

During project expansion phase (for example, if additional office space is being constructed), **customs duties can be reduced to 0%** in relation importation of M&E for forming fixed assets.

Project company may claim **VAT refund** during construction period (initial investment).

Land rent holiday may apply during 3 years, because the project is classified as incentive project.

If the project intends to receive loans from a local bank for the purposes of covering expansion construction costs, and if charter capital of the company is paid in full, the interest amounts can be used as cost **deduction for the purposes of corporate income tax in full**.

The project company will provide allowance to its expatriate employees in relation to medical allowance for expat employee and tuition fees for children – these amounts may be **exempted from personal income tax**, and can also be deduction for **CIT purposes.**

CASE STUDY 3: MANUFACTURING PLANT IN VIETNAM

An investor from EU applied for an approval for an investment proposal to build a factory to manufacture animal feed and to be located in an industrial zone in Vietnam.

Under the rules, this project may be eligible to a **2 year tax holiday** for CIT and also additional half CIT reduction for subsequent 4 years.

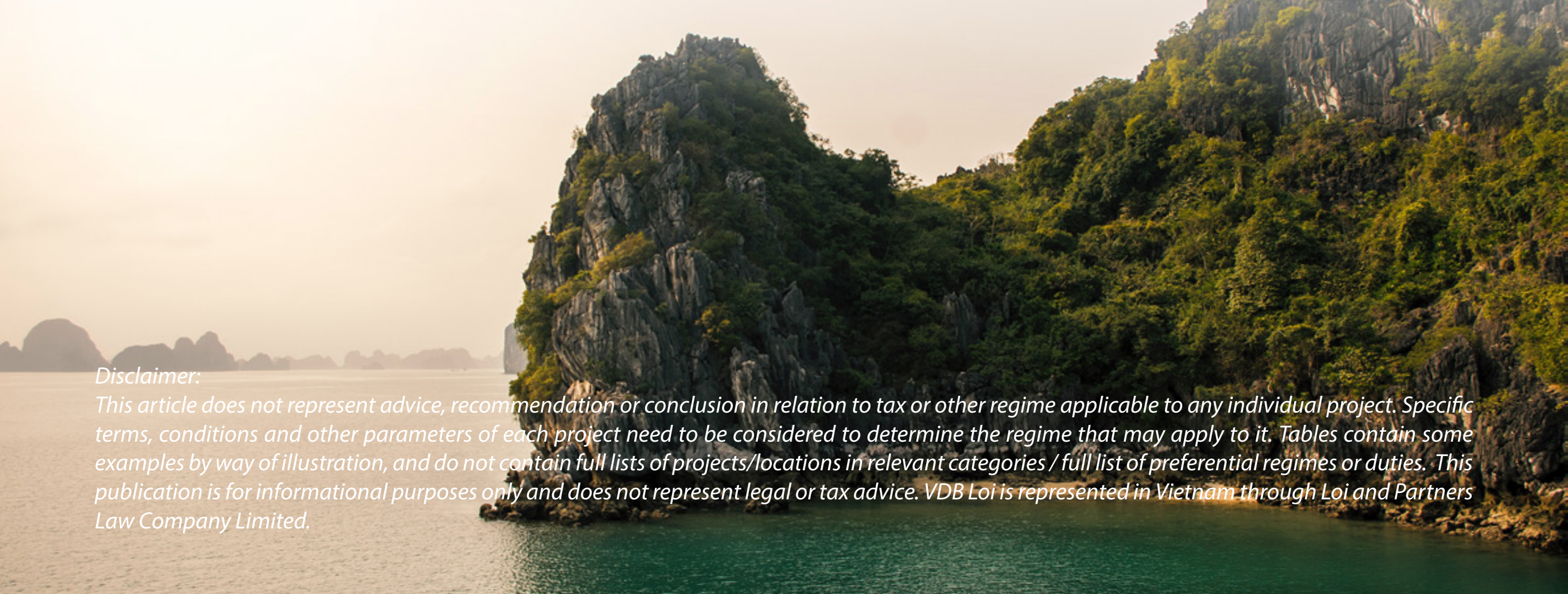
Import duties may be equal to 0% for machinery and equipment imported to form fixed assets of the factory.

VAT can be refunded in relation to the construction period.

No withholding tax should apply on **dividends** payable to foreign corporate shareholders.

The remuneration package to employees can be structured as a combination of cash payment, and various allowances (which would **not be subject to personal income tax** and can also be used as a **deduction for CIT purposes**).

*Please contact our team, if you would like to do a **"health check" for your subsidiary, JV-company or future project in Vietnam to see, if all available incentives are, or can be used to the fullest extent.***



Disclaimer:
This article does not represent advice, recommendation or conclusion in relation to tax or other regime applicable to any individual project. Specific terms, conditions and other parameters of each project need to be considered to determine the regime that may apply to it. Tables contain some examples by way of illustration, and do not contain full lists of projects/locations in relevant categories / full list of preferential regimes or duties. This publication is for informational purposes only and does not represent legal or tax advice. VDB Loi is represented in Vietnam through Loi and Partners Law Company Limited.

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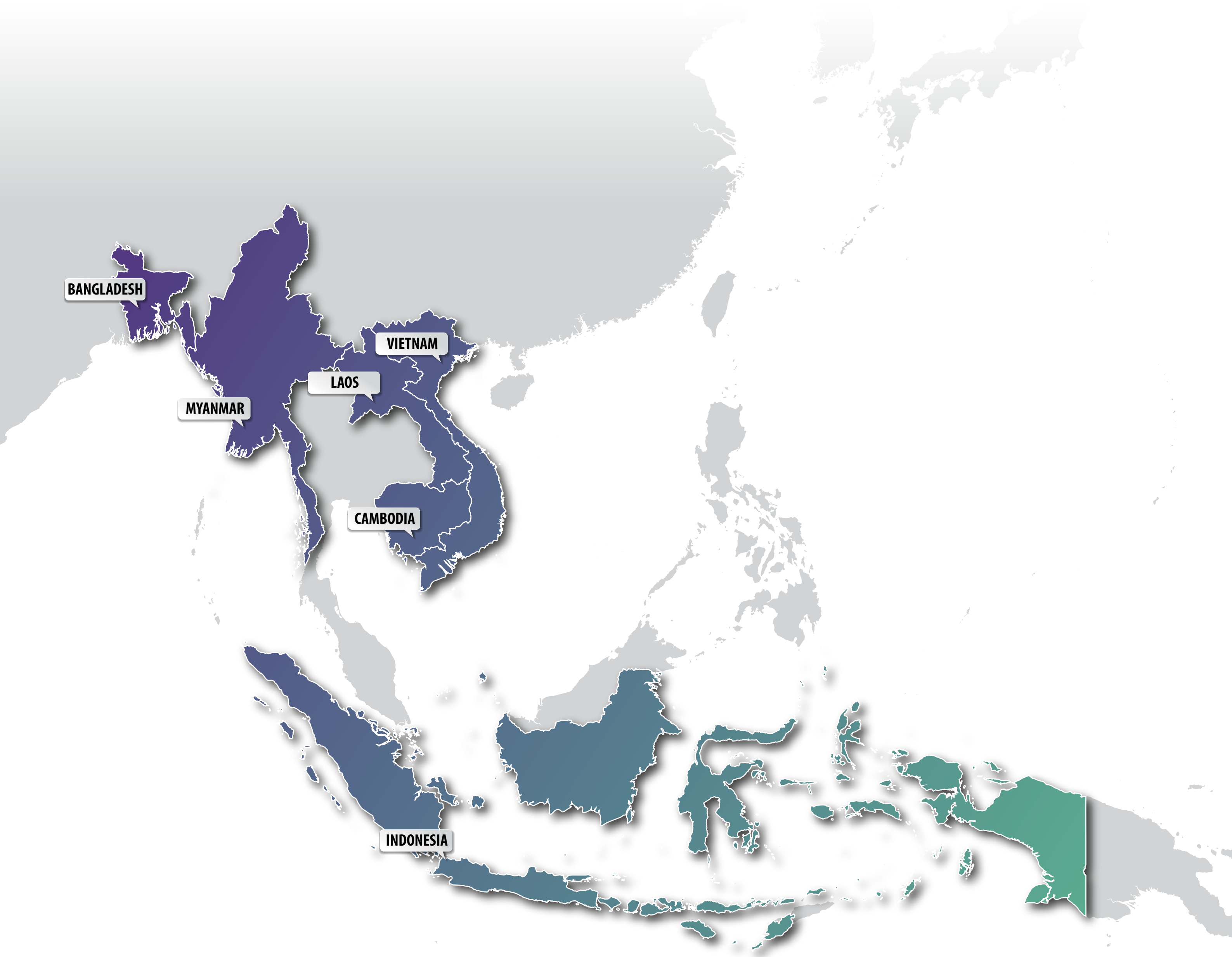

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