Consistent incentives needed to support industries

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In recent years, the Vietnamese government has made various policies aimed at restructuring the economy towards industrialisation and modernisation. In order to achieve such goals, developing supporting industries plays an important part in improving labour productivity and competitive capabilities, which will create added value and contribute to increasing the proportion of processing and manufacturing industries in the economic structure.

According to the government's Resolution No.115/NQ-CP dated August 2020 on solutions to promote the development of supporting industries, the government set a target that by 2025 Vietnamese companies will be able to manufacture products in supporting industries which have a high level of competitiveness; satisfy 45 per cent of the essential needs of domestic manufacture and consumption; and make up 11 per cent of the production value of the entire industry. Looking further ahead, by 2030 products from supporting industries in Vietnam will meet 70 per cent of the need of domestic manufacture and consumption, which holds 14 per cent of the industrial production value.

Although these goals are indeed ambitious, they will be achievable if we implement policies which provide practical support to the industries which are named "supporting" but which could make a critical impact.

The supporting industries have been given special attention and have been determined by the state as industries prioritised for development and entitled to investment incentives. With the introduction of Law No.71/2014/QH13 and the government's Decree No.111/2015/ND-CP dated November 3, 2015 on development of supporting industries, the legal framework on supporting industries has improved. Among the incentives granted, the incentive policy on corporate income tax (CIT) has received the most attention and has the biggest impact to motivate enterprises to invest into this industry.

Investment projects in the manufacture of supporting industry products can be entitled to an incentive CIT rate of 10 per cent for 15 years from the year they generate revenue; tax exemption for four years from the year they derive taxable income; and a 50 per cent reduction on CIT payable for nine subsequent years. However, the CIT incentive policy referred to above only applies to investment projects put into operation from 2015. In practice, there are a great number of projects going into operation before 1 January 2015 that are unable to enjoy the CIT incentive policy. Law 71 states a general principle that an enterprise with an investment project entitled to CIT incentives pursuant to the provisions of the law on CIT as at the time of issuance of its license or investment certificate in accordance with the law on investment. "If the law on CIT changes and the enterprise satisfies the conditions for tax incentives prescribed in the newly amended law, then the enterprise has the right to choose the incentives in terms of tax rate period of tax exemption or reduction in accordance with law at the time of such licensing or as prescribed in the new amendment for the residual duration as from the time when the new law takes effect," it further notes.

However, the current decrees and circulars provide no detailed regulation regarding the implementation of CIT incentives for projects in the manufacture of supporting industry products operating prior to January 2015. This leads to the fact that no projects prior to 2015 have enjoyed the CIT incentive policy applied to supporting industries. Such practice will cause tremendous disadvantages for pioneering companies that started investment projects before 2015. Such inconsistent implementation of the incentive policy also does not support the principle of equal treatment among investors that the Law on Investment clearly stipulates.

Better late than never – we believe that it is high time for the government to issue an amended regulation on the basis of the principle as set out in Law 71.

In particular, the amended policy should allow investment projects carried out prior to 2015 to enjoy tax incentives for the manufacture of supporting industry products. Companies with projects that satisfy the conditions to be projects in the manufacture of supporting industry products, and are granted with a certificate stating as such by the competent authorities, should be able to enjoy CIT incentives for the residual period starting from the date the certificate of incentives is granted

We suggest that companies should review their business activities in order to determine whether they satisfy the conditions for eligibility of the CIT incentives for such industries and carry out the necessary procedures to ensure that incentives will be efficiently applied in their best interest pursuant to the prevailing CIT regulations. The issuance and consistent implementation of tax incentive policy related to supporting industries will create leverage for businesses to further develop, help expand their domestic and overseas market as the investment pattern of global supply chains is seemingly shifting towards Vietnam, and at the same time contribute to building a nest to attract both eagles and sparrows to the country.■

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