

Procedures for applying Corporate Income Tax incentives on certain products of supporting industries

Tax Alert - Tax and Corporate Services

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Recently, to develop supporting industries, Vietnam has enacted many preferential regulations applied for these industries. In accordance with regulations on Corporate Income Tax ("CIT"), new investment projects manufacturing supporting industry products on the List of industrial products of prioritized development shall be entitled to the following CIT incentives:

- Preferential tax rate of 10% for 15 years;
- Tax exemption for 4 years and 50% tax reduction for the subsequent 9 years.

However, current tax regulations do not clearly regulate the conditions and procedures for determination of products enjoying the above incentives for supporting industries.

On 30 December 2015, the Ministry of Industry and Trade issued Circular 55/2015/TT-BTC guiding procedures to apply for certification on tax incentives for qualified projects.

We would like to present hereby some notable points in Circular 55 as follow:

1. Defining a new investment project manufacturing goods of supporting industries

According to Circular 55, new investment manufacturing products of supporting industry is defined as:

- Project implemented for the first time or operated independently of current project;
- Project is under production and expanding its scale, enhancing productivity, innovating technology for manufacturing supporting industry products incorporated with new equipment, production process of which production capacity increases by at least 20%.

2. What products shall be subject to the CIT incentives?

The products of supporting industries must satisfy one of the following conditions:

- Products which are domestically manufactured prior to 1 January 2015 belong to the List stipulated at Appendix 1 of Circular 55 and supported with Certificate of Conformity to technical standards of the Union European or the equivalent (if any);
- Products belong to the List of goods of supporting industry products of prioritized development under Decree No. 111/2015/NĐ-CP dated 3 November 2015 and not listed in the Appendix 1 issued together with Circular 55.

3. Authorities to grant certificate of tax incentives

According to Circular 55, the following authorities shall be responsible to issue certificate of tax incentives to projects satisfying the tax incentive conditions:

- Competent provincial authorities where the project is implemented or the Ministry of Industry and Trade shall confirm tax incentives for projects of small and medium-sized enterprises.
- The Ministry of Industry and Trade shall confirm incentives for other cases.

4. The cases of withdrawal of the tax incentives certificate

The competent authorities shall conduct review activities on the approved projects. Enterprises who fall into one of the following cases shall be withdrawn its certificate of tax incentives:

- During the operation, there are changes in products subject to incentives but the changes are not reported to the competent authorities;
- After 18 months starting from the date on which incentives are confirmed, the project does not manufacture the products registered for tax incentives;
- Other cases upon recommendation of the inspection team.

In case the Certificate is withdrawn, the enterprise is obliged to indemnify the granted incentives.

5. KPMG's recommendations

Tax incentive for supporting industry products is an emerging issue. For implementation, there are various issues to be clarified, depending on the nature of each project. We recommend companies review your products portfolios, reconcile with the detailed information of the products subject to tax incentives provided under Decree 111 and Circular 55, check the conditions to meet the technical standards of European Union, thereby determining the possibility to apply tax incentives for your projects and implementing the procedures to confirm with the Ministry of Industry and Trade. Please contact KPMG for further support in this matter.

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