

Dezan Shira & Associates: Vietnam to Issue Incentives to Counter COVID-19 Impact



- *The Vietnamese government is planning to issue incentives in the form of tax breaks, delayed tax payments, and land-use fees for businesses impacted by the COVID-19 outbreak.*
- *Vietnam's central bank, the State Bank of Vietnam (SVB), has already cut interest rates from February 2020. Further, the SVB has asked commercial banks in the country to lower interest rates.*
 - *Investors should seek help from qualified local advisors to better understand how the upcoming and current regulations affect their business.*

The Vietnamese government is planning to issue a variety of incentives to dampen the economic impact of the [COVID-19 outbreak](#). Recently the Prime Minister issued Directive 11 on measures to help businesses affected by the pandemic.

The incentives will include providing tax breaks, delaying tax payments, and land-use fees for businesses, costing the government US\$1.16 billion (VND 27 trillion). Vietnam's central bank, [State Bank of Vietnam \(SVB\)](#) has already cut interest rates from February 2020.

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With the onset of COVID-19, Vietnamese businesses, especially those in the [manufacturing](#) sector, are experiencing a slowdown or work stoppages in production, due to the lack of raw materials from China. The country is a major supplier of steel and components for [electronics](#), [automobiles](#), and phone manufacturers in Vietnam.

It is estimated that 17 percent of Vietnam's economy is exposed to trade with China, making it the highest in the region. 30 percent of the components used for manufacturers in Vietnam, comes from China, while some 32 percent of all tourists coming to Vietnam are from China. Additionally, 20 percent of the country's agricultural exports go to its northern neighbor.

The government has targeted the economic growth for 2020 to be 6.8 percent but has warned that if disruptions to supply chains continue due to the virus, then growth could slow to 5.96 percent.

Before the COVID-19 outbreak, Vietnam was one of the main beneficiaries of the US-China trade war, with a growing number of Chinese companies moving their operations into the country.

Highlights of Directive 11

Apart from the aforementioned incentives, we highlight other incentives from Directive 11:

- Postponement of the collection of social insurance premiums;
- Local authorities to reduce charges and fees of businesses affected by COVID-19; no increase in input prices for goods required in manufacturing in the first and second quarters of 2020;
- Ministry of Industry and Trade (MOIT) to oversee and ensure the supply of raw material for manufacturing businesses;
- Facilitate customs clearances including difficulties faced by importers and exporters; and
- Support labor training and support employees that lost jobs due to the epidemic. In addition, find solutions for foreign employees working in Vietnam.

Further incentives by local governments and ministries are likely to be introduced in compliance of Directive 11.

Apart from this, we look at the tax incentives and interest cut rates that have already been issued.

Delaying of tax payments

The General Department of Taxation issued *Dispatch No. 897/TCT-QLN* on March 3 requesting tax departments of provinces and cities to extend deadlines for paying taxes and exempt penalties for paying late taxes for businesses affected by COVID-19.

To avail of these exemptions, businesses must refer to Clause 3, Article 31 in *Circular 156/2013/TT-TBC* which lists cases in which tax deadlines can be extended as well as the procedures and documents necessary.

In addition, the [Ministry of Finance](#) (MOF) has issued a draft proposal to defer Value Added Tax (VAT) payment by five months for businesses impacted by COVID-19.

This would be worth US\$974 million (VND 23 trillion) in taxes from businesses in agriculture, textiles, footwear, automotive, aviation, electronics, food processing, and tourism sectors, among many others. Additionally, another US\$129 million (VND 3 trillion) in income taxes and value-added taxes is owed during this period.

The draft also includes the postponement of VAT and [Personal Income Tax](#) (PIT) for individuals and business households to December 15, 2020.

The government is also planning to delay land-use fees until October 31, 2020. This is expected to cost US\$194 million (VND 4.5 trillion). The final draft is expected to be submitted soon.

Interest rate cuts

SVB has cut interest rates by 0.5-1 percentage points and to scrap transaction fees. The central bank also ordered commercial banks in the country to follow suit and they offered US\$12.4 billion (VND 293 trillion) in preferential credit to affected businesses.

Vietnamese bank HDBank has cut transaction fees for domestic payments by 50 percent and has offered low-interest loans. The bank has also cut fees for issuing letters of guarantee for businesses that supply medical equipment and pharmaceutical products.

Additionally, another local bank, ABBank provided a loan support package worth US\$172 million (VND 4 trillion) for businesses impacted by the virus outbreak. While Kienlongbank has cut its interest rates by three percentage points to assist farmers, in

particular those growing jackfruits, watermelons, mangos, rambutan, and dragon fruits between February to April 2020.

Investors should seek help from qualified [local advisors](#) to better understand how the upcoming and current regulations affect their business.

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