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Tightening Tax Incentive Criteria for Electronics Manufacturing Enterprises

According to the **Draft Circular** stipulating criteria for identifying enterprises implementing projects to manufacture electronic equipment, **to qualify for tax incentives, enterprises must simultaneously meet criteria related to revenue, research and development (R&D) capabilities, and expenditure levels on scientific research activities…**

1. KEY PROPOSED REQUIREMENTS UNDER THE DRAFT CIRCULAR

The Ministry of Science and Technology (MOST) is currently soliciting feedback on the Draft Circular that outlines the criteria for determining enterprises engaged in electronic equipment production projects eligible for corporate income tax (CIT) incentives.

Specifically, **Article 3 of the Draft** stipulates that, to enjoy CIT incentives, enterprises undertaking electronic equipment production projects must concurrently meet conditions pertaining to:

- **Revenue structure: at least 70%** of total revenue must be derived from electronic equipment production activities.
- **R&D capacity:** Enterprises must maintain an internal R&D department with sufficient qualified personnel. In detail, **large enterprises must have an R&D department comprising at least 10 personnel** with university-level qualifications or higher, of whom at least 5 must be Vietnamese citizens. In contrast, for **small and medium-sized enterprises (SMEs),** the requirements are relaxed, necessitating **only a minimum of 3 personnel with university-level qualifications or higher**, including at least one Vietnamese national.
- **Investment in scientific research and innovation**: Enterprises must allocate **at least 3%** of their average net revenue (calculated over the preceding three fiscal years) to scientific research, technology development, and innovative activities.

2. PROVISIONS FOR FOREIGN-INVESTED ENTERPRISES (FIES)

For foreign-invested enterprises (FIEs), to qualify for CIT incentives, they must meet criteria similar to those applicable to domestic enterprises.

However, in cases where an FIE fails to satisfy one of the two criteria concerning R&D personnel or investment expenditures in scientific research, technology development, and innovation activities, it may still be considered eligible if it fulfills one of the following two supplementary conditions:

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1) First, the enterprise **must undertake technology transfer to at least one Vietnamese enterprise within 5 years from the date of issuance of the Investment Registration Certificate**, the Decision approving the investment policy, or the signing of a written agreement with the competent authority.
2) Second, the enterprise **must involve Vietnamese enterprises** in its production value chain while simultaneously meeting two specific requirements:

    (i) **between 20% and 30% of the enterprises in the chain must be Vietnamese entities** performing contracts for assembly, supply of raw materials, supplies, components, or services directly supporting the project; and

    (ii) **at least 20%** of the project's product cost must **be generated by the participating Vietnamese enterprise**s in the value chain.

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