

# **Industrial Zones and Export Processing Zones**

## **Legislation**

The LI and the LE constitute the principal legal base for the establishment and operation of EPZs, IZs and EZs. Guiding the laws is Decree No.29/2008/ND-CP dated 14 March 2008 of the Government issuing regulations on EPZs, IZs and EZs, as amended and supplemented by Decree No.164/2013/ND-CP dated 12 November 2013, and Decree No.114/2015/ND-CP dated 9 November 2015; and several implementing circulars in connection to environment, construction, labour, taxation, customs procedures, etc. in these zones.

For HTZs alone, the Government recently issued Decree No.99/2003/ND-CP on 28 August 2003, providing the regulations of the HTZs ("Decree 99"), which replaces the regulations on HTZs in Decree No.36/CP dated 24 April 1997 of the Government.

## **Features of EPZs, IZs and HTZs**

EPZs and IZs mean the zones with specific boundaries and without any inhabitant, being established by the Government or the Premier, and containing EPZ and IZ enterprises. EZs mean zones having a separate economic space with an investment and business environment, which is specially favourable for investors, and fixed geographical boundaries; being organized into functional areas including: non-tariff areas, bonded warehouse areas, export processing zones, industrial zones, entertainment areas, resorts, urban areas, residential areas, administrative areas and others. Having the same features, HTZs as defined in Decree 99 however is a multi-functional economic and technical zone to be established to carry out research and development (R&D) and application of high technology, training of highly technical personnel, and to

manufacture and trade in high-tech products. It is noted that EPZs, bonded warehouses, tax suspension warehouses and dwelling buildings may be located in an HTZ.

Under the LI, EPZs, IZs, EZs and HTZs are not typical vehicles for foreign investment, however, the EPZs and IZs play an important role in attracting foreign investment in Vietnam. That is why they are described herein. The purpose of EPZs and IZs is to provide an efficient and single base for manufacturing, processing and assembling products (for export only in the case of EPZs). Foreign capital projects are encouraged to locate in the zones by the assurance of modern infrastructure, such as good transportation and utility services, as well as the availability of necessary services.

In principle, an investment in development of an EPZ, IZ, EZ or HTZ must follow the same procedures and be governing by the same regulations as applicable to foreign investment in the zones as well as in rest of the country. To attract more investments in infrastructures, a number of preferential treatments and/or incentives are provided to foreigners who invest in developing EPZs and IZs, among them the easier licensing, longer duration and tax incentives.

### **Advantages of Locating in EPZs, IZs, EZs and HTZs**

The application procedures for a new enterprise inside EPZs, IZs, EZs or even HTZs are similar to the same applicable to the rest of the country, but quite easier in consideration and licensing.

According to Decree 118, EZs, HTZs (including concentrated information technology zones established under the provisions of the Government) are considered as areas with extremely difficult socio-economic conditions, and EPZs established under the provisions of the Government fall on the list of areas with difficult socio-economic conditions to be entitled to investment incentives. Investors in EPZs, IZs, EZs and HTZs enjoy incentives related to corporate income tax, import tax

and value-added tax, which are more favourable than those offered to investors outside.

10% corporate income tax rate with four-year holiday commencing from the date taxable income are first making and nine-year 50% reduction will be applicable to enterprises newly established from investment projects in IZs or EPZs located in areas with extremely difficult socio – economic conditions, EZs and HTZs for fifteen (15) years from the first year of project revenues. 17% corporate income tax rate with two-year holiday and four-year 50% reduction will be applicable to enterprises newly established in IZs located in areas with difficult socio – economic conditions and EPZs for ten (10) years.

Investors in EPZs, IZs, EZs and HTZs enjoy also the modern infrastructure and the availability of utility services and others. But, instead of these, they bear a higher price for the use of land and infrastructures, and are often required to pay the land and infrastructure rental for the entire duration. This reflects the other side of the EPZs, IZs, EZs and HTZs. However, except for mining projects; production and trading of goods and services subject to special sales tax other than automobile manufacturing; land investment projects in IZs or EPZs located in the areas with extremely difficult socio-economic conditions, EZs, and HTZs are exempt from non-agricultural land use tax; and the land of investment projects in IZs located in areas with difficult socio – economic conditions, and EPZs are entitled to 50% reduction of payable tax amount.

Enterprises newly established from investment projects (except for mining projects; production and trading of goods and services subject to special sales tax other than automobile manufacturing) in IZs or EPZs located in areas with extremely difficult socio – economic conditions, EZs, HTZs; or IZs located in areas with difficult socio – economic conditions and EPZs that goods imported to create their fixed assets are

exempted from import tax, including:

- (i) Equipment and machinery;
- (ii) Special-use means of transport included in technological lines which cannot be domestically manufactured yet; worker-transporting vehicles including cars of 24 seats or more and waterway crafts;
- (iii) Components, details, knocked down parts, spare parts, fittings, moulds and accessories accompanying machinery, equipment and special-use means of transport stated at Points (i) and (ii) above for assembly into complete units;
- (iv) Raw materials and supplies which cannot be domestically produced yet. to be used for manufacturing equipment and machinery included in technological lines or for manufacturing components, details, knocked down parts, spare parts, fittings, moulds and accessories accompanying equipment and machinery stated at Point (i) for assembly into complete units;
- (v) Building materials which cannot be domestically produced yet.

Raw materials, supplies and components which cannot be domestically manufactured and are imported for production of investment projects (except for the mining projects; projects on production and trading of goods and services subject to special sales tax, projects on production and assembly of automobiles, motorcycles, air conditioners, electric heaters, refrigerators, washing machines, electric fans, dishwashers, DVD players, stereo receivers, electric irons, kettles, hair dryers, drying hands and other items as decided by the Prime Minister) in IZs or EPZs located in areas with extremely difficult socio – economic conditions, EZs, and HTZs are exempt from import duties for a period of 5 years.

Furthermore, goods exported from non-tariff zones (including EPZs, export processing enterprises, warehouses and storing zones of goods pending duty payment, bonded warehouses, special economic-trade zones, trade-industrial zones, and

other EZs which are established under Prime Minister decisions) to foreign countries; goods imported from foreign countries into non-tariff zones for use in non-tariff zones only; goods transported from one non-tariff zone to another are not subject to import tax or export tax.

For the enterprises in EPZs, CEPT/AFTA tariff will be applicable in case they export the products to domestic market provided that the products contain at least 40% elements originating from ASEAN countries.

Goods temporarily imported and re-exported and goods temporarily exported and re-imported; raw materials imported for manufacture or processing of goods for export in accordance with manufacturing or processing for export contracts with foreign parties; goods and services purchased and sold as between foreign parties and non-tariff zones, and purchased and sold as between non-tariff zones; are not subject to value-added tax.

In addition, value-added tax rate of zero per cent (0%) is applicable to (i) goods sold, and (ii) services directly provided to organizations and individuals in non-tariff zones (meaning any such entity who has registered business or other cases as stipulated in regulations of the Prime Minister of the Government) and consumed therein, which are considered as exported goods and services.

Besides, persons with taxable income, including Vietnamese and foreign employees working in EZs, shall be entitled to a fifty (50) per cent reduction of personal income tax.