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TAX POLICIES UNDER NEW LAW ON SCIENCE, TECHNOLOGY, AND INNOVATION

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On 27 June 2025, the National Assembly officially passed the Law on Science, Technology, and Innovation (the "**New Law**") with 435 out of 438 National Assembly deputies attending and voting in favor. The New Law comprises 73 articles and shall take effect as from 1 October 2025.

The New Law establishes overarching policies aimed at promoting scientific research, technological development, and innovation nationwide. It particularly focuses on infrastructure development, encouraging risk-taking investment, flexible disbursement mechanisms, and immunity from liability where risks are knowingly accepted in pursuit of innovation. This legislation represents a breakthrough in consolidating and institutionalizing key policy resolutions of the Politburo such as Resolution No. 57-NQ/TW dated 2024 on the advancement of science, technology and innovation, Resolution No. 66-NQ/TW dated 2025 on the development of a knowledge-based economy, and Resolution No. 68-NQ/TW dated 2025 on reforming the management framework for science and technology tasks.

Beyond notable innovations such as investment in advanced research infrastructure, promotion of venture research, investment in breakthrough technologies, and comprehensive digital transformation of science and technology activities, the New Law places particular emphasis on incentivizing technological advancement in private enterprises and stipulating tax incentives applicable to both science and technology organizations and enterprises engaged in innovation activities.

1. Tax Policies for Private Sector

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The New Law dedicates Chapter IV to "Promoting Innovation in Enterprises and the Economy", affirming the State's policy of strongly encouraging enterprise investments in research and development (R&D) and technology advancement. Notably, expenditures related to technology investment are explicitly recognized as allowable business expenses for accounting and tax deduction purposes.

According to Article 34.3(d) of the New Law, the State shall issue and promote "preferential policies relating to finance, tax, land use, public procurement, and credit to facilitate enterprises in conducting scientific research, technology development, and innovation aimed at improving technology levels, productivity, product quality, and competitiveness."

These policies are concretized under Article 35 of the New Law as follows:

> ***Enterprises are permitted to record sponsorship expenses related to scientific research, technology development, and innovation as deductible expenses when calculating taxable income in accordance with corporate income tax law.***[1]

This provision reflects the State's encouragement and policy commitment to mobilizing private sector financial resources for scientific research and technological development as a means of fostering innovation. When an enterprise allocates financial support to such activities, the related expenditures shall be treated as legitimate

[1] Article 35.1 Law on Science, Technology and Innovation 2025

business expenses deductible for purposes of determining corporate income tax (CIT) liabilities. This alleviates the tax burden and provides reassurance for enterprises that their investment in R&D will not result in adverse tax consequences.

However, this rule only applies where enterprises use their own financial resources to sponsor scientific research, technological development, and innovation. Accordingly, enterprises must pay close attention to the legitimacy of such expenditures and ensure strict compliance with regulations on documentation, cost management, and accounting standards to demonstrate that the funds are solely allocated to R&D and innovation activities.

> ***Enterprises are permitted to deduct expenses for research and development activities based on a percentage of the actual costs of such activities, as prescribed by the laws on corporate income tax.*** [2]

In addition to encouraging the use of private sector financial resources to sponsor research and development activities that promote creativity and innovation, the State places particular emphasis on enterprises independently investing in R&D and innovation initiatives. By allowing enterprises to deduct a portion of their R&D investment expenses based on a percentage of actual costs incurred, this provision helps reduce the tax burden and facilitates a more favorable environment for proactive investment in this field

[2] Article 35.2 Law on Science, Technology and Innovation 2025

To implement this new provision effectively, enterprises should wait for detailed guidance from subordinate legislation such as tax decrees and circulars that will specify the applicable deduction rates. It is anticipated that such rates could be determined based on the specific scientific domain in which the enterprise is investing, thereby ensuring alignment with policy priorities and optimization of incentive effectiveness.

2. Tax Supports for Science and Technology Organizations

Alongside private enterprises eligible for incentive policies, science and technology organizations will likewise enjoy preferential treatment under the provisions of corporate income tax, value-added tax (VAT), import-export duties, and other relevant tax regulations, on par with private-sector entities.[3]

Such preferential treatment not only reflects the legal framework's acknowledgment of these organizations' pivotal role in scientific research, innovation, and technological advancement, but also serves as a catalyst to strengthen cooperation between the fields of science, technology, and business.

3. Expanding the Beneficiaries of VAT 5%

According to Article 9.2(m) of the 2024 Law on Value-Added Tax ("**VAT Law**"), a VAT rate of 5% is applied to science and technology services as defined under Law on Science and Technology 2013. Under VAT Law, eligible science and technology services for the 5% VAT[4] include

[3] Article 43.6.(dd) Law on Science, Technology and Innovation 2025
[4] Article 9.2 of VAT Law.

activities that serve and provide technical support for scientific research and technological development; activities related to intellectual property, technology transfer, standards, technical regulations, metrology, product and goods quality, radiation safety, nuclear energy and atomic energy; and services related to information provision, consulting, training, professional development, dissemination, and application of scientific and technological achievements across socio-economic sectors.[5]

Under the New Law, the definition of science and technology services has been expanded to "Science, Technology, and Innovation Services," which includes activities that serve and provide technical support for scientific and technological operations, innovation activities, and innovative entrepreneurship.[6] This expanded scope now covers the following areas: (i) Basic research; (ii) Applied research; (iii) Technology development and development of social solutions; (iv) Pilot production; (v) Technology application and transfer; (vi) Innovation based on technological renewal, technological creativity, and performance enhancement; (vii) Innovative entrepreneurship; (viii) Provision of science, technology, and innovation services; (ix) Initiatives, technical improvements, knowledge creation, and other related activities.

However, the scope of service definitions under the Law on Science and Technology 2013 remained relatively narrow and did not fully capture the breadth of innovation activities that have rapidly developed in practice. The New Law has expanded the definition to "Science, Technology, and Innovation Services," thereby it should extend the eligible subjects entitled to the 5% VAT rate in comparison

[5] Article 3.10 Law on Science and Technology 2013
[6] Article 3.12 Law on Science, Technology and Innovation 2025

with Law on Science and Technology 2013, however, absence of the clear regulations at the moment, stakeholders should be mindful of the elaborating regulations which may set forth otherwise.

The expansion of the definitional scope under the New Law, if favorably elaborated under guiding regulations, not only clarifies which activities qualify for preferential tax rates but also generates strong incentives for enterprises and organizations to invest in innovative initiatives. This demonstrates a strategic shift in tax policy toward fostering a knowledge-based and innovation-driven ecosystem, thereby contributing to the enhancement of national competitiveness in the era of the digital economy and advanced technologies.