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New Law on Investment Promotion in Laos

The Law on Investment Promotion No. 14/NA (LIP) became effective in Laos on April 19, 2017, and aims to support both domestic and international private investors by providing a more seamless process for business applications, licensing, and government approvals. Changes in the LIP are applicable to all investors, regardless of nationality, but do not apply retroactively to businesses currently operating in the country. Indeed, every benefit granted and contract entered into under the old law remain applicable until the end of their contractual terms.

Promoted Sectors

The new LIP provides an exhaustive list of key sectors prioritized by the government, such as advanced technology, scientific research, and research and development; ecotourism; education and training centers; construction of modern hospitals and medical equipment; investment, services, and development of public infrastructure in city centers; microfinance; and modern department stores.

Each sector will be afforded benefits and incentives in accordance with the location of their activities, per the “Zones” stipulated. Zone 1 covers areas that are poor, remote, and lack infrastructure to facilitate investments. Zone 2 covers areas that have good socioeconomic infrastructure which can facilitate investments. Zone 3 covers Special Economic Zones (SEZ). With the exception of SEZs covered by other regulations, the government will grant a profit tax exemption ranging from 4 to 15 years for companies in Zones 1 and 2. Moreover, to provide greater transparency, investors who have been granted specific exemptions may request certificates formalizing their incentives from the One-Stop-Service Unit as a form of written proof.

Foreign Business Activities

The types of activities to be operated by foreign business operators in Laos remain categorized as: (1) general business activities; (2) concession activities; and (3) activities to be operated within an SEZ. General business activi-

ties are categorized further into activities that are included in the List of Controlled Activities, which must be thoroughly appraised and approved by authorities, and activities that are not included in the list, which are more open and incur less scrutiny in business registration. Separately, a concession is an agreement granted by the government for investors to conduct certain activities in a specified area, such as managing a power plant or a telecommunications operation.

The new LIP contains a framework for registration of general business activities and concession activities. Activities to be operated within an SEZ are briefly mentioned but are governed by their own specific regulations.

Types of Legal Structures

The new LIP recognizes three existing legal structures: (1) wholly domestic or foreign-owned investments; (2) joint ventures between domestic and foreign investors; and (3) business cooperation by contracts. It also formalizes and updates two additional legal structures: (1) joint ventures between state-owned enterprises and the private sector; and (2) public-private partnership (PPPs). The formalization of PPPs is noteworthy as it reflects the current practice of utilizing PPPs to implement large projects, such as hydro-power plants, to fulfill Laos’ goal of becoming the “battery of Southeast Asia.”

Tax Incentives

In addition to incentives granted to promoted sectors, the new LIP allows for zero percent VAT rates and tariff exemptions for the importation of vehicles or raw materials that are not available in Laos for the purpose of domestic project construction or product manufacturing. VAT and tariff exemptions are also provided for the importation of materials to manufacture products for export, and the use of domestic materials, which are not natural resources, to manufacture finished goods and semi-finished goods for export.

The new LIP also allows eligible companies to carry forward losses within three consecutive accounting years, formalizes exemptions on state land leases and concession rental fees, and sets clear exemption periods and tax holidays.

Other notable changes introduced by the new LIP include the establishment of the Investment Promotion and Management Committee to consider approval of foreign business activities and assess investments for development of SEZs, greater rights for foreign investors to remit funds, and the requirement for legal entities registered in Laos to obtain a license prior to conducting outbound investments.

The Law on Investment Promotion No. 14/NA signifies a positive development in Laos’ regulatory landscape, and is likely to provide a strong boost to investments in the nation. 🇂🇵