



SEA Customs and Trade Alert Stay informed of changes

Greetings from your SEA Customs and Global Trade Services team. This newsletter is your reference for practical information on relevant customs issues. We are pleased to enclose the latest Customs and Trade Alert on:

Vietnam Customs stepping up inspections on Material Finalization reports

Trade Facilitation arrangements exist in Vietnam which allow for companies (“Enterprises”) to import materials for the manufacturing of exports, with import duties and import VAT exempted.

These arrangements support Enterprises who purchase the raw materials, as well as those where ownership of the raw materials remains offshore and the Vietnam Enterprise charges a service fee for processing. The Enterprises can either be located within or outside the Export Processing Zones.

Depending upon the business model adopted, approved companies are designated as Processing Enterprises; Export Processing Enterprises; or Export Manufacturing Enterprises. Approved Enterprises are required to submit Material Finalization Reports to demonstrate that imported materials have been utilised in the manufacture of goods for export; or where those goods are diverted to the domestic market, to demonstrate that duties have been accounted for.

To ensure Enterprises submit their Material Finalization reports accurately and in a timely manner, Vietnam Customs have announced that they are taking the following actions:

- Stepping up on the inspections of Processing Enterprises and Export Processing Enterprises;
- Requiring Export Manufacturing Enterprises to submit Material Finalization reports; **and**
- Increasing scrutiny on first-time submissions of Material Finalization reports by Enterprises.

Enterprises must submit a Material Finalization report to Vietnam Customs **no later than three months** after the Enterprise's financial year end.

What this means for you

Enterprises that are assessed by Vietnam Customs to have intent of tax evasion may receive a penalty of up to 300 percent of the amount of tax unpaid. Late payment interest would also be charged at a daily rate of 0.3 percent to 0.5 percent (i.e., about 11 percent to 18 percent per annum) for the period from the customs declaration date. Enterprises could potentially face such penalties due to the failure to:

- Submit their Material Finalization report by the stipulated deadline; and/or
- Account for any inventory discrepancies which resulted in any actual duty shortfall (or deemed by Vietnam Customs)

What to do

To ensure a timely and accurate submission, Processing Enterprises, Export Processing Enterprises and Export Manufacturing Enterprises are strongly encouraged to:

- Proactively start consolidating the relevant data required for the Material Finalization report **at least three months prior** to the submission deadline;
- Determine potential risk exposure for any inventory discrepancies identified; and
- Rectify inventory discrepancies identified in preparation on any future report inspection.

How we can support

In preparation for the Material Finalization report submission to Vietnam Customs, Deloitte can support Enterprises in the following areas:

- Review of inventory records/data for Material Finalization report to identify any potential inventory discrepancies compliance gaps and exposures.

- Preparation of explanation letter on any inventory discrepancies identified prior to on-site audit by Vietnam Customs.
- Support with preparation for on-site Customs audits including coordination and support during the customs audit, and any post audit remedial action.
- Support in the implementation of internal work processes and/or systems enhancements to comply with the Material Finalization report requirements including submission.

Contacts

For more information on the above or any other Customs and Global Trade matters, please contact **Bob Fletcher** (Tel: +65 6216 3338) or **Tuan Bui** (Tel: +84 4 6288 3568, ext. 2103), or your usual Customs and Global Trade Services contact in Deloitte.

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