AmCham - Manufacturing Committee

Vietnam Customs Update and Outlook for 2018

23 March 2018
Private and Confidential
A glance of Business environment in 2017

**FDI (USD billion)**
- Registered: 35.88
- Disbursed: 17.5

**3 top investors by country**
- 5.3: Singapore
- 8.49: Korea
- 9.11: Japan
- 0.9: The United States of America

**GDP increase 6.81%**
- 8%: Industry & Construction
- (7.1%): Mining
- 14.5%: Manufacturing
- 10.9%: Retail
- 10.4%: Tourism

Projection of Business environment in 2018

**FDI (USD billion) estimated 36**

**Main investors by country**
- Japan
- Korea
- Singapore
- China

**Target GDP increase 6.7%**
- Industry & Construction
- Renewable energy
- Hi-tech agriculture
- Smart cities
Vietnam Customs collection in 2017

Customs collection (VND billion) 297,073 ~ 104.2% of 2017 plan

Customs collection of some large provinces

<table>
<thead>
<tr>
<th>Province</th>
<th>Collection (VND billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Binh Duong</td>
<td>13,450</td>
</tr>
<tr>
<td>Dong Nai</td>
<td>16,870</td>
</tr>
<tr>
<td>BR-VT</td>
<td>17,534</td>
</tr>
<tr>
<td>Ha Noi</td>
<td>21,817</td>
</tr>
<tr>
<td>Hai Phong</td>
<td>53,019</td>
</tr>
<tr>
<td>HCM</td>
<td>109,274</td>
</tr>
</tbody>
</table>

Ratio

- HCM: 36%
- Hai Phong: 18%
- Ha Noi: 7%
- BR-VT: 6%
- Dong Nai: 6%
- Others: 6%
Vietnam Customs Plan for 2018

Revenue collection target of: 283,000 billion VND

Customs collection (billion VND)

- Import duty
- Export duty
- Import VAT
- Special Excise duty
- Environmental Protection tax

- Decrease 0.7% compared to 2017
- Estimated 30,000 bil VND shortfall resulting from reduction of duty rates

Sectors subject to closer scrutiny:
- Automotive
- Garment
- FMCG

Types of manufacturing company:
- Export Processing Enterprise – EPE
- Manufacturing/Processing
- Re-processing/Subcontractor
Planned changes to Customs regulations

- **Revisions/supplements to Customs regulations** to:
  - reduce administrative procedures, including:
    - Use of e-form D under ATIGA
    - Reduction in special inspection documents and procedures
  - clarify Customs requirements/obligations

- Greater emphasis on intelligence based examinations

- **FTA developments**

  - 90% goods subject to 0% duty rate under ATIGA

  - Ratification of EU-Vietnam FTA within 2018?

  - Implementation of **CPTPP** commencing 2019 –
    - Supplements existing Multi-lateral and bi-lateral FTAs
    - Providing favorable market access to Canada, Mexico & Peru

- **Special Administrative-Economic Zones**

- **Duty/VAT exemptions linked to encouraged industries**
Planned changes to Customs regulations + expected practice

Negative

• Increase in border checks – HS Classification; COO and Valuation
• Increase in post-customs clearance inspections and audits – Valuation (treatment of Intellectual Property, price adjustments)
• Manufacturing/Processing for Export:
  • Tightening of controls on materials imported to produce finished goods
  • Draft Circular - regulating customs procedures, inspection and supervision is under review.
  ✓ Greater focus on quantities of raw materials consumed;
  ✓ Requirement to determine “Technical Bill of Materials” and “Actual Bill of Materials”

• Less flexible, and stricter interpretation of regulations, e.g.:
  ✓ Customs procedures: refund of duty
  ✓ Customs valuation: additive items, trade mark, manufacturing know-how, etc.

• More aggressive in pursuing underpayments and applying interest/penalties

• Administrative penalties @ 20% of taxes underpaid likely to be the norm
Impacts on Manufacturing Companies

**Inventory management**

Focus on managing quantities of exempt raw materials imported for export manufacturing:
- Requirement to submit technical BOM before exporting goods;
- Need to maintain actual BOM for the determination of tax payable for during customs audit or inspection;
- Requirement to provide detailed formula for determining:
  - the exempted amount of raw materials attributed in exported goods, and
  - the customs duty liabilities on materials imported for export manufacturing but not exported
- Requirement to submit annual Finalization Report of exempt materials imported by quantity

**HS classification, Origin and Customs value**

Focus on:
- Machines and spare parts imported as fixed assets
- Materials imported for manufacturing/trading purpose
- Verification of Certificate of Origin

**Tax exemptions**

Greater opportunities for export manufacturing companies to enjoy duty exemption. e.g. for:
- fixed assets application (conditions/criteria) for encouraged projects with VND 6,000 billion invested capital, and
- rural investment project with 500 employees or more
Managing Customs Compliance

• Need to have robust processes in place for:
  o Determining HS Codes, Origin and Customs Valuation methodology
  o Operation of Trade Facilitation; Duty/VAT relief schemes, Exemptions

• Consider obtaining Customs Advanced Rulings – when necessary on:
  o Tariff Classification, and
  o Customs Valuation

• Need to develop and apply an effective Internal Compliance Program
  • Inventory management (IM-EX vs. domestic); Duty free-assets management;
  • Including management of customs brokers/agents
  • Periodic reviews of adopted practices

• Need to have an effective process to manage:
  o Border Challenges, Post-clearance Audits and Checks
  o Communications with Customs (direct/indirect)

• Need to be aware of key Customs developments that impact your business and act accordingly.
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- 24 years of consultancy practice in Deloitte Vietnam and the US;
- Member of the national Law Appraisal Council chaired by the Ministry of Justice;
- Board Member of Vietnam Tax Consultant Association;
- Regularly provide comment on draft laws and regulations on tax and customs;
- Succeeded in supporting various manufacturing and trading MNCs and state owned companies in terms of customs & indirect tax

- 13 years service in UK Customs, including 4 years specializing in Customs valuation;
- 30+ years in customs consultancy and trade compliance including 15 years in Asia – Pacific. Former Head of Customs & Global Trade Services of Deloitte Asia Pacific and Southeast Asia;
- Has advised many manufacturing and trading MNCs structure their contractual and supply chain arrangements to be customs duty/VAT efficient.
- Key sectors include Consumer & Industrial Products, Energy & Resources, Life Sciences & Healthcare, and Technology, Media and Telecommunication.
- Vice Chair of Customs Working Group of the Transport and Logistics Sector Committee of EuroCham
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