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Customs & Global Trade Alert

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Strategic considerations for conversion to an export processing enterprise

This Alert highlights characteristics of the export processing enterprise (EPE) conversion process and basically equips businesses with the essential insights to prepare for implementation.

1. Significant advantages of obtaining EPE status for export-oriented manufacturing businesses

As Vietnam continues to advance its export-oriented policies, the Government continues strengthening incentives to encourage manufacturers operating under the EPE regime. These incentives provide businesses with substantial indirect tax and operational benefits.

EPEs enjoy a wide range of preferential indirect tax treatments, most notably exemptions from import duties, export duties, and value-added tax (VAT) for all types of imported goods such as materials, tools, machinery, and spare parts. In addition, depending on the nature of their operations and specific business purposes, EPEs may be eligible for simplified customs procedures for certain transactions, helping reduce administrative burdens.

From an operational perspective, the EPE mechanism also mitigates risks of material discrepancies with customs managed data and simplifies the preparation of Customs Finalization Reports if companies operating with multiple business models, such as toll manufacturing, contract manufacturing, and local-sale production.

These advantages may result in significant cash-flow optimization compared to standard manufacturing entities (e.g. VAT refund process burden). EPEs do not need to pay VAT or import duties upfront and subsequently pursue refund procedures – an especially valuable benefit for manufacturers with high import volumes or significant VAT-able domestic purchase transactions, where tax refunds can be uncertain and documentation-heavy.

2. Complex but worthwhile EPE conversion processes

The EPE conversion process poses several practical challenges, including limited regulatory guidance, unclear customs and tax treatment, involvement of multiple stakeholders, and a complex, time-consuming end-to-end transition.

The transition to an EPE framework entails a sophisticated process involving coordination among both internal and external stakeholders. Companies should expect to undertake several workstreams including:

(i) Internal assessment

Prior to the implementation, it is advisable to conduct a feasibility study to evaluate operational readiness, potential compliance gaps, estimated customs and tax exposures, and cost-benefit implications to support the informed decision-making process.

(ii) Customs and tax fulfilment

A well-structured preparation roadmap should include, but not be limited to, the following key components:

- Compilation and submission of Customs Finalization Reports
- Proposed disposition plans for remaining materials, machinery, equipment and products
- Budget estimates for settling all outstanding duty, tax and penalty (if any)
- Assessment of the three critical qualifying conditions for a typical EPE
- Preparation of other required documentation in accordance with customs and tax regulations

During the conversion, companies will undergo multiple interactions, inspections, and audits by the competent authorities before securing EPE status.

(iii) Licensing procedures

EPE conversion requires coordinated workstreams between the licensing authorities and the customs authority to validate the EPE status and amend the corresponding Investment Registration Certificate (IRC) and Enterprise Registration Certificate (ERC).

3. How EY can help?

EY provides broad assistance in the conversion process which requires comprehensive coordination between customs, tax and legal workstreams:

- Preparing a feasibility study tailored to your specific circumstances to support EPE conversion consideration
- Designing a master work plan and timelines to ensure smooth and effective implementation
- Assisting in resolving critical pending tax and customs matters (e.g., outstanding refunds) prior to conversion
- Supporting implementation for each procedural step required by the relevant authorities, including customs audits, amendment to the IRC/ERC reflecting EPE status.



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