The State Council’s New Policies to Promote the Development of Comprehensive Bonded Zones

Background

In order to implement the decision made by the government regarding the promotion of the Comprehensive Bonded Zones (CBZs), the General Administration of Customs (GAC), together with 14 ministry level departments including the State Administration of Taxation and the Ministry of Commerce, published a draft version of “Opinions on Promoting High Standard Opening-up and High Quality Development of Comprehensive Bonded Zones” (the Opinions).

On 25 January, the Opinions were officially published along with 21 specific tasks and measures that aimed to develop the CBZs into globally advanced centres for the following five types of operations: processing and manufacturing; research, development and design; logistics and distribution; inspection and maintenance; and sales and services. These operations will provide favourable support for the development of a more open economy, the expansion of foreign trade, and the cultivation of new business models.

Since 1990, China has introduced six types of special customs supervision areas, from free trade zones in the beginning to the export processing zones, bonded logistics parks, bonded ports, cross-border industrial zones, and CBZs that were introduced later. A common feature of the different types of special customs supervision areas is that goods are allowed to enter these areas free from customs duty and other import taxes. However, since each type of special area has its own characteristics, their advantages and limitations are different when engaging in different businesses.

Due to the different functions of each type of special area, the State Council published the “Guiding Opinions on Promoting the Scientific Development of Special Customs Supervision Areas” in 2012, which...
proposed that the existing export processing zones, bonded logistics parks, bonded ports, cross-border industrial zones, and other eligible bonded zones be gradually converted into CBZs with unified requirements. In principle, any newly established special supervision area should be a CBZ. CBZs are the most advanced special customs supervision area and play an important role in promoting foreign trade, attracting foreign investment, leading new industry and promoting the comprehensive development of the special supervision areas. With new policies for CBZs being released, CBZs will play an even more important role in the future.

New Policies for Comprehensive Bonded Zones

The Opinions state that CBZs should be developed into "Five Centres," which means that CBZs will extend their focus from traditional functions like export processing and logistics distribution to other business areas such as research, development, innovation, inspection, testing, and sales services in order to cultivate new advantages in the international market. With regard to the 21 specific measures for CBZs, we would like to draw your attention to the following developments:

- VAT General Taxpayer status will be granted to enterprises in CBZs

In order to allow enterprises in CBZs to utilise both international and domestic resources and expand in both international and domestic markets, and to reduce tax costs for enterprises with domestic sales demand, VAT General Taxpayer status will be granted to enterprises in CBZs.

- Domestic sales of cell phones and automobile parts manufactured in CBZs will be exempted from Automatic Import Licence requirements

As stipulated by the "Administrative Measures on Automatic Import Licences for Goods" products manufactured in CBZs are subject to Automatic Import Licence requirements before they can be sold in the domestic market (if the product is in the relevant catalogue). In order to facilitate the domestic sale of cell phones and automobile parts by manufacturers located in CBZs, which are sold in frequent batches, Automatic Import Licences will no longer be required for these products. This is an important development because these manufacturers were previously subject to a lengthy and complex application process which made domestic sales inconvenient.

- Goods and articles imported into CBZs for R&D purposes will be exempted from import licence requirements, and imported consumable R&D materials will be reconciled in accordance with consumption

According to the new policy, consumable materials that are imported into CBZs for R&D purposes will be reconciled according to actual consumption, which will solve certain R&D problems. In addition, goods and articles that were previously subject to import licence requirements will be exempted from such requirements as long as they are imported into the CBZ for R&D purposes.

- The bonded storage and display of automobiles in CBZs will be permitted at designated automobile import ports

Bonded storage and display of automobiles constitutes a breakthrough from the current policy of "levying duties upon discharge" for imported automobiles. Under the new policy, importers will have the option to import automobiles under bonded status into the CBZ, where the automobiles will wait for subsequent sale.
Based on logistical needs, financial leasing enterprises registered in CBZs will be allowed to declare imported and exported large-scale equipment (such as aircraft, ships and ocean infrastructure) to CBZ customs without the equipment actually entering the CBZ, as long as effective supervision and enforcement of relevant tax policies can be assured.

Due to the risks and costs caused by long-distance transportation between the place where financial leased goods are located and the CBZs where goods are declared to customs and cleared, the new policy will allow the goods to be declared to CBZ customs without actually entering the CBZ. Customs in CBZs will coordinate with the customs authority where the goods are located so that the latter can carry out supervision. This policy will bring significant convenience to financial leasing enterprises registered in CBZs.

**KPMG’s Observations**

The Opinions launch specific measures to solve “pain points” associated with CBZs, e.g. exemption from Automatic Import Licence requirements for certain key products produced in CBZs and allowing bonded storage and display of imported automobiles in CBZs. These measures aim to facilitate the movement of goods through CBZs as well as the domestic sales operations of CBZ enterprises, while at the same time reducing operating costs for these businesses.

In addition to the expansion of traditional functions with respect to manufacturing and logistics, the Opinions also introduced innovative measures and breakthroughs in the areas of R&D, design, inspection, maintenance, and sales service activities.

The Opinions also clarify which governmental departments are responsible for different areas. The respective organs that are responsible for the 21 measures have been clearly assigned and defined. In general, the General Administration of Customs will take the lead role and review and supervise the entire process, while other departments are responsible for cooperation and support in their respective areas.

The Opinions will undoubtedly serve as a boost for enterprises registered in CBZs. Enterprises in the CBZs will be able to carry out their manufacturing, trade, R&D and other activities more conveniently and efficiently according to their own development needs. Enterprises should follow-up carefully with customs authorities for the relevant guidelines.

Enterprises located in other special customs supervision areas can study the relevant CBZ policies so that they can enjoy the benefits provided by these new CBZ policies as soon as their special customs supervision areas are upgraded to CBZ status.

Manufacturing enterprises located outside special customs supervision areas might want to consider engaging enterprises in CBZs to perform certain processing procedures in order to share in the benefits provided by these preferential policies, as CBZ manufacturers will be qualified as both VAT General Taxpayers and customs bonded enterprises.

Headquarters of multinational groups can conduct feasibility studies on the establishment of factories, logistics centres, and R&D organs in CBZs throughout China in order to identify opportunities to reap the benefits of these new policies, which constitute a significant step forward in China’s reform and opening-up process.
How KPMG Can Help

KPMG has always paid close attention to the development of customs special supervision areas in China. We have professionals with significant customs, tax and supply chain experience who can provide valuable services to enterprises, including the following:

— Assist enterprises with evaluating whether they need to apply for VAT General Taxpayer status, and provide advisory services in connection with bonded inventory reconciliation and the handling of bonded equipment during the transition to VAT General Taxpayer;

— Assist enterprises with sorting out business lines, designing bonded business plans, and improving trading arrangements to comply with customs requirements;

— Assist enterprises with optimising their bonded operation reconciliation procedures, enhancing risk mitigation awareness and establishing standardised operations;

— Assist newly established R&D institutions and manufacturing enterprises in CBZs with applications for Advanced Certified Enterprise (ACE) status;

— Help enterprises establish and conduct bonded repair, remanufacturing and cross-border e-commerce operations;

— Assist enterprises with the registration, inspection and quarantine of medical equipment and reagents.
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