

China Tax Alert

Issue 5, February 2019

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

Regulations discussed in this issue of Express:

- Guofa [2019] No. 3 "Opinions on Promoting High Standard Opening-up and High Quality 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.





并肩赋能 税道渠成

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Contact us

Northern Region



Eric Zhou
China Trade and Customs Services
Lead Partner
Email: ec.zhou@kpmg.com
Tel: +86 (10) 8508 7610



Helen Han
Partner
Email: h.han@kpmg.com
Tel: +86 (10) 8508 7627

Eastern and Western China



Anthony Chau
Partner
Email: anthony.chau@kpmg.com
Tel: +86 (21) 2212 3206



Dong Cheng
Partner
Email: cheng.dong@kpmg.com
Tel: +86 (21) 2212 3410



Rachel Tao
Director
Email: rachel.tao@kpmg.com
Tel: +86 (21) 2212 3473

Southern Region



Grace Luo
Partner
Email: grace.luo@kpmg.com
Tel: +86 (20) 3813 8609



Vivian Chen
Partner
Email: vivian.w.chen@kpmg.com
Tel: +86 (755) 2547 1198



Phillip Xia
Director
Email: Philip.xia@kpmg.com
Tel: +86 (20) 3813 8674

Hong Kong



Daniel Hui
Partner
Email: daniel.hui@kpmg.com
Tel: +852 2522 7815

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

For any enquiries, please send to our public mailbox: taxenquiry@kpmg.com or contact our partners/directors in each China/HK offices.

Khoonming Ho Head of Tax, KPMG Asia Pacific Tel. +86 (10) 8508 7082 khoonming.ho@kpmg.com	Northern Region	Tracey Zhang Tel. +86 (10) 8508 7509 tracy.h.zhang@kpmg.com	Tanya Tang Tel. +86 (25) 8691 2850 tanya.tang@kpmg.com	Aileen Jiang Tel. +86 (755) 2547 1163 aileen.jiang@kpmg.com	Natalie To Tel. +852 2143 8509 natalie.to@kpmg.com
Lewis Lu Head of Tax, KPMG China Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com	Vincent Pang Head of Tax, Northern Region Tel. +86 (10) 8508 7516 +86 (532) 8907 1728 vincent.pang@kpmg.com	Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com	Rachel Tao Tel. +86 (21) 2212 3473 rachel.tao@kpmg.com	Cloris Li Tel. +86 (20) 3813 8829 cloris.li@kpmg.com	Elizabeth DE LA CRUZ Tel. +852 2826 8071 elizabeth.delacruz@kpmg.com
Beijing/Shenyang/Qingdao Vincent Pang Tel. +86 (532) 8907 1728 vincent.pang@kpmg.com	Conrad TURLEY Tel. +86 (10) 8508 7513 conrad.turley@kpmg.com	Vivian Zhou Tel. +86 (10) 8508 3360 v.zhou@kpmg.com	Janet Wang Tel. +86 (21) 2212 3302 janet.z.wang@kpmg.com	Jean Li Tel. +86 (755) 2547 1128 jean.j.li@kpmg.com	Matthew Fenwick Tel. +852 2143 8761 matthew.fenwick@kpmg.com
Tianjin Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com	Yali Chen Tel. +86 (10) 8508 3036 yali.chen@kpmg.com	Carol Cheng Tel. +86 (10) 8508 7644 carol.y.cheng@kpmg.com	John Wang Tel. +86 (571) 2803 8088 john.wang@kpmg.com	Sisi Li Tel. +86 (20) 3813 8887 sisi.li@kpmg.com	Sandy Fung Tel. +852 2143 8821 sandy.fung@kpmg.com
Shanghai/Nanjing/Chengdu Anthony Chau Tel. +86 (21) 2212 3206 anthony.chau@kpmg.com	Milano Fang Tel. +86 (10) 8508 7274 milano.fang@kpmg.com	Ally Mi Tel. +86 (10) 8508 7583 ally.mi@kpmg.com	Mimi Wang Tel. +86 (21) 2212 3250 mimi.wang@kpmg.com	Mabel Li Tel. +86 (755) 2547 1164 mabel.li@kpmg.com	Charles Kinsley Tel. +852 2826 8070 charles.kinsley@kpmg.com
Hangzhou John Wang Tel. +86 (571) 2803 8088 john.wang@kpmg.com	Tony Fung Tel. +86 (10) 8508 7531 tony.fung@kpmg.com	Kenny Wang Tel. +86 (10) 8508 7655 kenny.wang@kpmg.com	Jennifer Weng Tel. +86 (21) 2212 3431 jennifer.weng@kpmg.com	Kelly Liao Tel. +86 (20) 3813 8668 kelly.liao@kpmg.com	Stanley Ho Tel. +852 2826 7296 stanley.ho@kpmg.com
Guangzhou Lilly Li Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	Flora Fan Tel. +86 (10) 8508 7611 flora.fan@kpmg.com	Fiona Yu Tel. +86 (10) 8508 7663 fiona.yu@kpmg.com	Grace Xie Tel. +86 (21) 2212 3422 grace.xie@kpmg.com	Patrick Lu Tel. +86 (755) 2547 1187 patrick.c.lu@kpmg.com	Becky Wong Tel. +852 2978 8271 becky.wong@kpmg.com
Fuzhou/Xiamen Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com	John Gu Tel. +86 (10) 8508 7095 john.gu@kpmg.com	Lily Zhang Tel. +86 (10) 8508 7545 lily.l.zhang@kpmg.com	Bruce Xu Tel. +86 (21) 2212 3396 bruce.xu@kpmg.com	Grace Luo Tel. +86 (20) 3813 8609 grace.luo@kpmg.com	Barbara Forrest Tel. +852 2978 8941 barbara.forrest@kpmg.com
Shenzhen Eileen Sun Tel. +86 (755) 2547 1188 eileen.gh.sun@kpmg.com	Rachel Guan Tel. +86 (10) 8508 7613 rachel.guan@kpmg.com	Eric Zhao Tel. +86 (10) 8508 7493 eric.zhao@kpmg.com	Jie Xu Tel. +86 (21) 2212 3678 jie.xu@kpmg.com	Ling Lin Tel. +86 (755) 2547 1170 ling.lin@kpmg.com	Kate Lai Tel. +852 2978 8942 kate.lai@kpmg.com
Hong Kong Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com	Helen Han Tel. +86 (10) 8508 7627 h.han@kpmg.com	Laura Xu Tel. +86 (532) 8907 1731 laura.xu@kpmg.com	Robert Xu Tel. +86 (21) 2212 3124 robert.xu@kpmg.com	Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com	Travis Lee Tel. +852 2143 8524 travis.lee@kpmg.com
	Michael Wong Tel. +86 (10) 8508 7085 michael.wong@kpmg.com	Eastern and Western Region			Irene Lee Tel. +852 2685 7372 irene.lee@kpmg.com
	Henry Kim Tel. +86 (10) 8508 5000 henry.kim@kpmg.com	Anthony Chau Head of Tax, Eastern & Western Region Tel. +86 (21) 2212 3206 anthony.chau@kpmg.com	Jason Yu Tel. +86 (21) 2212 3316 jim.yu@kpmg.com	Chris Xiao Tel. +86 (20) 3813 8630 chris.xiao@kpmg.com	Alice Leung Tel. +852 2143 8711 alice.leung@kpmg.com
	Ruby Jiang Tel. +86 (10) 8553 3680 ruby.jiang@kpmg.com	Cheng Chi Tel. +86 (21) 2212 3433 cheng.chi@kpmg.com	William Zhang Tel. +86 (21) 2212 3415 william.zhang@kpmg.com	Eileen Sun Tel. +86 (755) 2547 1188 eileen.gh.sun@kpmg.com	Ivor Morris Tel. +852 2847 5092 ivor.morris@kpmg.com
	David Ling Tel. +86 (10) 8508 7083 david.ling@kpmg.com	Johnny Deng Tel. +86 (21) 2212 3457 johanny.deng@kpmg.com	Hanson Zhou Tel. +86 (21) 2212 3318 hanson.zhou@kpmg.com	Koko Tang Tel. +86 (755) 2547 4180 koko.tang@kpmg.com	Benjamin Pong Tel. +852 2143 8525 benjamin.pong@kpmg.com
	Lisa Li Tel. +86 (10) 8508 7638 lisa.h.li@kpmg.com	Cheng Dong Tel. +86 (21) 2212 3410 cheng.dong@kpmg.com	Michelle Zhou Tel. +86 (21) 2212 3458 michelle.b.zhou@kpmg.com	Bin Yang Tel. +86 (20) 3813 8605 bin.yang@kpmg.com	Malcolm Prebble Tel. +852 2684 7472 malcolm.j.prebble@kpmg.com
	Lucia Liu Tel. +86 (10) 8508 7570 lucia.jj.liu@kpmg.com	Chris Ge Tel. +86 (21) 2212 3083 chris.ge@kpmg.com	Eric Zhang Tel. +86 (21) 2212 3398 eric.zhang@kpmg.com	Nicole Zhang Tel. +86 (20) 3813 8644 nicole.ll.zhang@kpmg.com	David Siew Tel. +852 2143 8785 david.siew@kpmg.com
	Shirley Li Tel. +86 (10) 8553 3758 shirley.s.li@kpmg.com	Chris Ho Tel. +86 (21) 2212 3406 chris.ho@kpmg.com	Kevin Zhu Tel. +86 (21) 2212 3346 kevin.x.zhou@kpmg.com	Bruce Liu Tel. +86 (20) 3813 8636 bruce.liu@kpmg.com	Murray Sarelius Tel. +852 3927 5671 murray.sarelius@kpmg.com
	Alan O'Connor Tel. +86 (10) 8508 7521 alan.oconnor@kpmg.com	Henry Wong Tel. +86 (21) 2212 3380 henry.wong@kpmg.com	Leon Shao Tel. +86 (21) 2212 3622 leon.shao@kpmg.com	Sophie Lu Tel. +86 (20) 2547 1141 ss.lu@kpmg.com	John Timpany Tel. +852 2143 8790 john.timpany@kpmg.com
	Shirley Shen Tel. +86 (10) 8508 7586 yinghua.shen@kpmg.com	Jason Jiang Tel. +86 (21) 2212 3527 jason.jt.jiang@kpmg.com	Michelle Zhou Tel. +86 (21) 2212 3458 michelle.b.zhou@kpmg.com	Fiona Wu Tel. +86 (20) 3813 8606 fiona.wu@kpmg.com	Lachlan Wolfers Tel. +852 2685 7791 lachlan.wolfers@kpmg.com
	Joseph Tam Tel. +86 (10) 8508 7605 laiyi.tam@kpmg.com	Sunny Leung Tel. +86 (21) 2212 3488 sunny.leung@kpmg.com	Ellen Yan Tel. +86 (21) 2212 3484 ellen.yan@kpmg.com	Philip Xia Tel. +86 (20) 3813 8674 philip.xia@kpmg.com	Daniel Hui Tel. +852 2685 7815 daniel.hui@kpmg.com
	Joyce Tan Tel. +86 (10) 8508 7666 joyce.tan@kpmg.com	Michael Li Tel. +86 (21) 2212 3463 michael.y.li@kpmg.com	Tim Zeng Tel. +86 (21) 2212 3759 tim.zeng@kpmg.com	Hong Kong	Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com
	Christopher Xing Tel. +86 (10) 8508 7072 christopher.xing@kpmg.com	Karen Lin Tel. +86 (21) 2212 4169 karen.w.lin@kpmg.com	Southern Region	Curtis Ng Head of Tax, Hong Kong Tel. +852 2143 8709 curtis.ng@kpmg.com	Adam Zhong Tel. +852 2685 7559 adam.zhong@kpmg.com
	Kensuke MATSUDA Tel. +86 (10) 8508 7034 kensuke.matsuda@kpmg.com	Benjamin Lu Tel. +86 (21) 2212 3462 benjamin.lu@kpmg.com	Lilly Li Head of Tax, Southern Region Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	Ayasha M. Lau Tel. +852 2826 7165 ayasha.lau@kpmg.com	Eva Chow Tel. +852 2685 7454 eva.chow@kpmg.com
	Irene Yan Tel. +86 (10) 8508 7508 irene.yan@kpmg.com	Christopher Mak Tel. +86 (21) 2212 3409 christopher.mak@kpmg.com	Vivian Chen Tel. +86 (755) 2547 1198 vivian.w.chen@kpmg.com	Darren Bowdern Tel. +852 2826 7166 darren.bowdern@kpmg.com	Alexander ZEGERS Tel. +852 2143 8796 zegers.alexander@kpmg.com
	Adams Yuan Tel. +86 (10) 8508 7596 adams.yuan@kpmg.com	Naoko Hirasawa Tel. +86 (21) 2212 3098 naoko.hirasawa@kpmg.com	Nicole Cao Tel. +86 (20) 3813 8619 nicole.cao@kpmg.com	Yvette Chan Tel. +852 2847 5108 yvette.chan@kpmg.com	Gabriel Ho Tel. +852 3927 5570 gabriel.ho@kpmg.com
	Jessie Zhang Tel. +86 (10) 8508 7625 jessie.j.zhang@kpmg.com	Ruqiang Pan Tel. +86 (21) 2212 3118 ruqiang.pan@kpmg.com	Felix Feng Tel. +86 (20) 3813 7060 Felix.feng@kpmg.com	Lu Chen Tel. +852 2143 8777 lu.l.chen@kpmg.com	Vivian Tu Tel. +852 2913 2578 vivian.l.tu@kpmg.com
	Sheila Zhang Tel. +86 (10) 8508 7507 sheila.zhang@kpmg.com	Amy Rao Tel. +86 (21) 2212 3208 amy.rao@kpmg.com	Ricky Gu Tel. +86 (20) 3813 8620 ricky.gu@kpmg.com	Patrick Cheung Tel. +852 3927 4602 patrick.p.cheung@kpmg.com	
	Wayne Tan Tel. +86 (28) 8673 3915 wayne.tan@kpmg.com	Fiona He Tel. +86 (20) 3813 8623 fiona.he@kpmg.com	Wade Wagatsuma Tel. +852 2685 7806 wade.wagatsuma@kpmg.com		