KPMG

China Tax Alert

Issue 23, July 2021

Bonded refurbishment of medical equipment in China facilitated

Summary

On 2 July 2021, the Chinese State Council issued Circular Guobanfa [2021] No. 24 (“Circular 24”). This directs government authorities to set new rules facilitating the bonded refurbishment of imported medical equipment in China. This China Tax Alert sets out the key considerations.

Highlights

- China’s State Council has directed government authorities to set new rules to facilitate the development of China’s bonded equipment refurbishment sector. Support should be provided to the conduct of such activities in Comprehensive Bonded Zones, including by Pilot Free Trade Zone businesses. Provincial governments will be responsible for this development and its monitoring. Refurbishment carried out on a bonded condition means that the equipment will not be subject to import taxes at the time when it is brought from overseas into the Comprehensive Bonded Zones. Furthermore, refurbishment services performed by businesses established in Comprehensive Bonded Zones to overseas entities would generally be exempt from VAT.

- The State Council directs that the Catalogue of Refurbished Products (“Catalogue”) should be updated on an ongoing basis and the inclusion of medical equipment and other products into the Catalogue should be considered. The refurbished items would need to be imported from and exported to overseas.

- The State Council also decreed that pilot arrangements should be explored which would allow qualifying businesses, located outside of Comprehensive Bonded Zones, to start bonded refurbishment activities for their self-manufactured and exported products. The pilot refurbishment activities should not only be of high tech and high value nature, but also meet the prescribed environmental production requirements.

- A more comprehensive policy for bonded refurbishment should be ready by 2025. The Ministry of Commerce should lead the above development with support from the Ministry of Finance, Ministry of Environmental Protection, General Administration of Customs and the State Taxation Administration.

KPMG observations

COVID-19 has brought unprecedented risks and opportunities to businesses in China and elsewhere in the advanced medical equipment sector, e.g., high end medical scanners. While these businesses have seen a surge in their sales, they are also facing challenges in fulfilling after-sales service needs.

Based on recent discussions with a number of leading medical equipment businesses, the usage of their machines has increased 3 to 5 times. This is as a result of increasing diagnosis needs and the heavy usage of the machines, and has in turn led to increased demand for refurbishment and after sales services. However, as many countries have not yet recovered from the pandemic, it has proven to be difficult for medical equipment businesses to meet their obligations, including:

1. Providing replacement machines to medical institutions;
2. Sending the used machines back to their manufacturers, which are possibly located in different countries; and
3. The manufacturers may not have the capacity to refurbish the machines due to an ongoing COVID-19 disruption situation in their respective locations (e.g., factories are required to shut down or operate at reduced capacity).

In light of the above, some of the global advanced medical equipment businesses are looking for a solution and one of the options involves setting up a global refurbishment hub in China. However, under the current Chinese business and regulatory rules, importing used equipment to China for refurbishment purposes is a restricted business activity which is subject to layers of approvals. These business regulatory restrictions have slowed down business discussions and so now Circular 24 should open up opportunities for global advanced medical equipment businesses.

Given that the policy relaxation announcement is new, detailed rule formulation will still require the input of multiple Chinese authorities. In the meantime businesses can start planning on setting up of new operations. KPMG has a team of dedicated professionals specialized in Supply Chain business regulatory and tax matters. The team has been working with the relevant Chinese authorities on this policy development and would be glad to share the latest developments and assist businesses on exploring this new opportunity.

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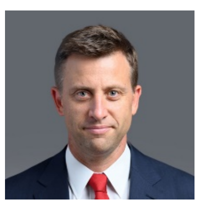

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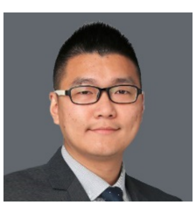

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