

China Tax Alert

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18 new supervisory rules issued by Tianjin Customs to facilitate foreign trade in the China (Tianjin) Pilot Free Trade Zone

Regulations discussed in this issue:

- *18 new supervisory rules issued by Tianjin Customs to facilitate foreign trade in the China (Tianjin) Pilot Free Trade Zone*

Background

The China (Tianjin) Pilot Free Trade Zone (“Tianjin FTZ”), one of the regional free trade zones after the Shanghai FTZ and the first FTZ in northern China, was officially launched on 21st April 2015 along with the Guangdong FTZ and Fujian FTZ. On April 22, Tianjin Customs announced 18 new supervisory rules. The general ideas of Tianjin Customs to support Tianjin FTZ development are:

- Creating a new high-level platform for improving customs supervision rules
- Building two systems – a bonded supervision system and a customs clearance management system
- Supporting Tianjin FTZ in achieving superior supervision, port expansion, and trading convenience

Executive summary of the 18 new rules

1. Self-transport in Tianjin FTZ
2. Unification of lists for records
3. Selective levying for domestic sales
4. Centralised processing bonded warehouses and export supervision warehouse business application issues
5. Centralised declaration of incoming and outgoing batches
6. Simplified procedures and documents for customs clearance
7. Centralised tax payment
8. Tax diversification guarantee system
9. Verification of certificate of origin through network
10. Finance leasing system
11. Delivery of bonded futures
12. Exhibition of bonded goods
13. Maintenance for domestic and overseas customers

14. Incentive measures for authorized economic operation (AEO)
15. Business credit information publication
16. Cancellation of the registration license of declaration enterprises in Tianjin FTZ
17. Enterprise-oriented disclosure system
18. Social intermediary organisations assist in customs bonded supervision and customs audits

FTZ Customs supervisory rules comparison of Tianjin and Shanghai

Customs supervision rules in the Tianjin FTZ and Shanghai FTZ have similarities but also their own characteristics. Below is a simple comparison between Tianjin FTZ and Shanghai FTZ.

The features of Tianjin FTZ	The features of Shanghai FTZ
Centralised processing bonded warehouses and export supervision warehouse business application issues	Declaration after entry mode
Tax diversification guarantee system	Online supervision for qualified storage enterprises
Verification of certificate of origin through network	Write-offs based on work orders for processing trade
Cancellation of the registration license of declaration enterprises in Tianjin FTZ	Enterprise coordinator
	Record for multiple use
	Authorisation for Customs in Shanghai FTZ to use Class A when managing enterprises
	Intelligent permission management for FTZ entry and exit
	Auto review and release, audit selectively
	Greater declaration flexibility for enterprises, selective customs audits

According to the "duplicable and promotable" principle and the good experience to date, we predict that the new supervisory rules will be promoted to other regions across the country.

KPMG Observation

Tianjin Customs strongly emphasises systematisation and integrity to ensure customs policy improvements match and complement for each other. We will comment on the following rules:

1. Supporting the development of new types of business

Finance leasing system

Customs will levy duties and VAT by period based on rental instalments if the financial leasing goods are imported in the special supervision area of the Tianjin FTZ. It allows qualified enterprises to provide a guarantee in the form of guarantee statement.

Finance leasing is a characteristic of the Tianjin FTZ which has a leading position domestically. Tianjin Customs will further support the development of the financial leasing with an advantageous tax administration policy and more flexible model of guarantees. These will further reduce costs and promote monetary circulation for enterprises. This measure benefits all of the special customs supervision areas of the Tianjin FTZ, facilitating development of financial leasing in multiple regions of the FTZ.

Maintenance for domestic and overseas customers system

Qualified enterprises in the special customs supervision area of the Tianjin FTZ are allowed to develop high-tech, high value-added and non-polluting domestic and overseas maintenance business. Customs will supervise it with reference to the processing trade model and rely on the information system.

The system is conducive to establishing a regional service centre to expand the business space, spur extension of the industrial chain, and upgrade the processing trade and develop maintenance industry in the FTZ.

2. Promoting trade facilitation

Centralized tax payment

If FTZ enterprises have provided effective guarantees, Customs will allow them to release imported goods first, then pay tax for all the imported goods centrally at a prescribed time .

This rule changes the tax payment model from paying each time to making centralized payment at a prescribed time. This will reduce repetitive operations, simplify clearance procedures, and facilitate import and export business.

Diversified tax guarantee system

When FTZ enterprises do tax guarantee operations in the clearance process, they can choose a variety of guarantee forms, such as deposits and bank guarantees.

The system will expand the forms of guarantees and reduce guarantee costs. It is conducive for import and export enterprises to reinvigorate assets, integrate capital and stimulate greater market dynamism.

Verifying certificate of origin through network

Enterprises can declare certificates of origin according to the electronic data if the import goods are in the scope of electronic

management for country of origin. They do not need to submit the paper origin certificates in the clearance process.

This rule will further simplify clearance procedures. With the implementation of the China-Korea FTZ treaty and progress in free-trade negotiations with other economies, this measure will bring greater and more benefits to import and export enterprises.

3. Playing the leading and radiation role

Selective levying for domestic sales

Enterprises in the FTZ are allowed to produce and process goods that will be sold in the local market. Enterprises can selectively pay customs duty according to the corresponding imported materials or the actual inspection status.

This new policy gives greater rights to enterprises when they sell domestically. Enterprises can flexibly choose materials and parts or finished products on which tax is to be levied in accordance with their own situations and the overall tax planning. This can improve the tax structure and reduce tax costs. We will also focus on the introduction of specific operational procedures and regulations by Tianjin Customs and further define and refine details.

4. Cultivating the legal environment

Incentives measures for authorized economic operation (AEO)

Customs will gradually define an AEO incentives list and prioritise its authorisation in the FTZ.

China Customs carries out mutual recognition of AEO companies with the Customs bureaus of other countries or regions, creating appropriate measures to facilitate customs clearance for AEO companies with mutual recognition. Customs will gradually define the AEO incentives list and the measures will be clearer and deeper. At the same time, the preferential implementation of AEOs in the FTZ will allow the AEO enterprises in the FTZ to undertake clearance earlier.

Enterprise-oriented disclosure system

The customs audit model will be changed from the single-way of customs's mandatory investigation to providing another way for enterprises to self-disclose. Enterprises in the FTZ are encouraged to carry out "proactive disclosure". They should take the initiative to report their problems to the Customs Audit department rather than being inspected.

The system will be conducive to guiding enterprises to abide by the law, and to standardise and more strictly manage their operations. The system will help optimise customs inspection resources and improve management efficiency.

Social intermediary organizations assist in customs bonded supervision and customs audits

Social intermediary organisations will be brought into customs bonded supervision and audits. The business areas, operational aspects and work scope in which intermediary organizations can take will be broadened.

The system is conducive to expanding the areas in which agencies are involved, enhancing the efficiency of customs supervision and building a comprehensive FTZ service.

Outlook

Eighteen new supervisory rules issued by Tianjin Customs are the beginning of system improvements. It has been reported that, Tianjin Customs will continue to introduce more enhancements based on actual developments and experience to create a new high-level platform. KPMG will keep abreast of the changes and regulations and provide regularly updates on and analysis of the latest regulations of the Tianjin FTZ.

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