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Announcement on Regulatory Issues Related to Bonded Repair and Maintenance Business in Special Customs Supervision Zones

Regulations discussed in this issue:

Announcement on Regulatory Issues Related to Bonded Repair and Maintenance Business in the Special Customs Supervision Zones
Announcement No. 59 [2015] of the General Administration of Customs
2015-12-11

Overview

The General Administration of Customs released the Announcement on Regulatory Issues Related to Bonded Repair and Maintenance Business in the Special Customs Supervision Zones (Announcement No. 59 [2015]) to standardise the regulation of the bonded repair and maintenance business in the special customs supervision zones. According to the announcement, approved enterprises in the special customs supervision zones are allowed to conduct the repair and maintenance business permitted by laws, regulations and rules with approval from the State Council and relevant government departments, as well as provide repair and maintenance services for domestic goods (including those produced by the enterprises in the zones or by other domestic enterprises of the group for sale outside the zones in China) returned to the zones. Processing, trading and manufacturing enterprises, bonded logistics related enterprises and other investors interested in the bonded repair and maintenance business should assess the specific impact of this announcement and consult the relevant competent customs and professional bodies.

Background

The bonded repair and maintenance business is crucial to maintain China's status as the world's factory given its importance in improving post-sale service, enhancing the efficiency of reverse logistics, building brand image and strengthening overall competitiveness. For a long period of time, the bonded repair and maintenance business has remained at a pilot exploratory stage. It was not until the issuance of the Interim Measures of the Customs of the People's Republic of China for the Administration of Bonded Port Areas in 2007 that testing and post-sale repair and maintenance services are

included in the scope of permitted businesses. Even so, specific operational guidance is in lacking. The release of this announcement serves to fill the void in the policy, laying the regulatory groundwork for this business in the zones and thus is significant to the development of the repair and maintenance business in China.

Main contents and KPMG's interpretation

- 1.** Further improve customs clearance supervisions services. This announcement is applicable to the following bonded repair and maintenance business conducted in the bonded zones, export processing zones, bonded logistics parks, bonded ports, integrated bonded zones, Zhuhai Park of the Zhuhai Macau Cross-border Industrial Zone, Chinese part of the Khorgos International Centre of Boundary Cooperation:
 - (1) Importing bonded foreign goods (with damaged components, functional failure and quality defects) ("to be repaired goods") for testing, repair and maintenance in the zones, and exporting the goods afterwards
 - (2) Transporting domestic goods (from other areas in China) into the zones for testing and re-transporting the goods to other areas in China afterwards
- 2.** Enterprises conducting the bonded repair and maintenance business should create an H account book to keep e-records of to-be-repaired goods, repaired goods (including those examined but cannot be repaired), and maintenance materials and parts. The creation of a bonded H account book should comply with the following conditions:
 - (1) Establishing a management mechanism and a computer management system that meet Customs regulatory requirements, enabling the whole-process tracing of consumption in repair and maintenance
 - (2) Realising computer networking with the Customs, enabling data exchange as required by the Customs
 - (3) Imposing effective management of to-be-repaired goods, repaired goods, maintenance materials and parts, damaged components and parts being replaced in the repair process, and leftover of maintenance materials and parts created in the repair process
- 3.** For foreign goods imported and transported into the zones for testing, repair and maintenance, they (including those examined but cannot be repaired) should be exported afterwards.
- 4.** For repaired goods transported from the zones to other areas in China, enterprises should submit repair contracts (or contracts for domestic sales containing guarantee clauses), repair invoices, etc. to the Customs. The dutiable value of bonded repair service is determined based on the costs of bonded components and parts, and repair expenses.

KPMG recommendations

- 1.** Although this announcement standardise the provision of bonded repair and maintenance service inside the special customs supervision zones, it remains unclear as to which types of businesses can be conducted given the absence of “negative list management”. Enterprises preparing to develop the business should communicate with the competent customs to ensure approval can be obtained.
- 2.** To conduct the repair and maintenance business, enterprises need to establish a management mechanism and a computer management system that meet the requirements of the Customs to trace the consumption in repair and maintenance during the entire process; realise computer networking with the Customs to enable data exchange, and have effective management of all materials (goods). These involve ERP system, customs management system, IT solutions, internal control policy, and processing and trading management expertise. We suggest enterprises assess their fulfilment of the conditions and make improvements where necessary. Inexperienced enterprises are advised to consult professionals in this regard.
- 3.** Besides customs authority, conducting the bonded repair and maintenance business involves inspection and quarantine, and quality control of imports and exports. The requirements for products of different industries vary. Enterprises intending to carry out this business should conduct preliminary study and consult the authorities in charge of inspection and quarantine, and quality control of imports and exports or professional bodies in this aspect.
- 4.** The issuance of this announcement is only a start for the development of the bonded repair and maintenance business. Looking forward, similar regulations for conducting this business outside the special customs supervision zones are even more worth expecting. At present, the development of this bonded business is limited and only at a pilot stage. It is unknown when the business will be expanded to other regions in China. KPMG will closely track the development and promptly release related information.

Khoonming Ho Partner in Charge, Tax China and Hong Kong SAR Tel. +86 (10) 8508 7082 khoonming.ho@kpmg.com	Northern China	Michael Wong Tel. +86 (10) 8508 7085 michael.wong@kpmg.com	Henry Ngai Tel. +86 (21) 2212 3411 henry.ngai@kpmg.com	Joe Fu Tel. +86 (755) 2547 1138 joe.fu@kpmg.com	Barbara Forrest Tel. +852 2978 8941 barbara.forrest@kpmg.com
Beijing/Shenyang David Ling Tel. +86 (10) 8508 7083 david.ling@kpmg.com	Vaughn Barber Tel. +86 (10) 8508 7071 vaughn.barber@kpmg.com	Jessica Xie Tel. +86 (10) 8508 7540 jessica.xie@kpmg.com	Irene Yan Tel. +86 (10) 8508 7508 irene.yan@kpmg.com	Ruqiang Pan Tel. +86 (21) 2212 3118 ruqiang.pan@kpmg.com	Ricky Gu Tel. +86 (20) 3813 8620 ricky.gu@kpmg.com
Tianjin Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com	Andy Chen Tel. +86 (10) 8508 7025 andy.m.chen@kpmg.com	Jessie Zhang Tel. +86 (10) 8508 7625 jessie.j.zhang@kpmg.com	Amy Rao Tel. +86 (21) 2212 3208 amy.rao@kpmg.com	Fiona He Tel. +86 (20) 3813 8623 fiona.he@kpmg.com	Stanley Ho Tel. +852 2826 7296 stanley.ho@kpmg.com
Qingdao Vincent Pang Tel. +86 (532) 8907 1728 vincent.pang@kpmg.com	Yali Chen Tel. +86 (10) 8508 7571 yali.chen@kpmg.com	Sheila Zhang Tel. +86 (10) 8508 7507 sheila.zhang@kpmg.com	Wayne Tan Tel. +86 (28) 8673 3915 wayne.tan@kpmg.com	Ryan Huang Tel. +86 (20) 3813 8621 ryan.huang@kpmg.com	Charles Kinsley Tel. +852 2826 8070 charles.kinsley@kpmg.com
Shanghai/Nanjing Lewis Lu Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com	Milano Fang Tel. +86 (532) 8907 1724 milano.fang@kpmg.com	Tiansheng Zhang Tel. +86 (10) 8508 7526 tiansheng.zhang@kpmg.com	Rachel Tao Tel. +86 (21) 2212 3473 rachel.tao@kpmg.com	Cloris Li Tel. +86 (20) 3813 8829 cloris.li@kpmg.com	John Kondos Tel. +852 2685 7457 john.kondos@kpmg.com
Chengdu Anthony Chau Tel. +86 (28) 8673 3916 anthony.chau@kpmg.com	Tony Feng Tel. +86 (10) 8508 7531 tony.feng@kpmg.com	Tracy Zhang Tel. +86 (10) 8508 7509 tracy.h.zhang@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	Kate Lai Tel. +852 2978 8942 kate.lai@kpmg.com
Hangzhou John Wang Tel. +86 (571) 2803 8088 john.wang@kpmg.com	John Gu Tel. +86 (10) 8508 7095 john.gu@kpmg.com	Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com	John Wang Tel. +86 (21) 2212 3438 john.wang@kpmg.com	Kelly Liao Tel. +86 (20) 3813 8668 kelly.liao@kpmg.com	Jocelyn Lam Tel. +852 2685 7605 jocelyn.lam@kpmg.com
Guangzhou Lilly Li Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	Naoko Hirasawa Tel. +86 (10) 8508 7054 naoko.hirasawa@kpmg.com	Josephine Jiang Tel. +86 (10) 8508 7511 josephine.jiang@kpmg.com	Anthony Chau Tel. +86 (21) 2212 3206 anthony.chau@kpmg.com	Mimi Wang Tel. +86 (21) 2212 3250 mimi.wang@kpmg.com	Alice Leung Tel. +852 2143 8711 alice.leung@kpmg.com
Fuzhou/Xiamen Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com	Henry Kim Tel. +86 (10) 8508 5000 henry.kim@kpmg.com	Cheng Chi Tel. +86 (21) 2212 3433 cheng.chi@kpmg.com	Henry Wong Tel. +86 (21) 2212 3380 henry.wong@kpmg.com	Jennifer Weng Tel. +86 (21) 2212 3431 jennifer.weng@kpmg.com	Steve Man Tel. +852 2978 8976 steve.man@kpmg.com
Shenzhen Eileen Sun Tel. +86 (755) 2547 1188 eileen.gh.sun@kpmg.com	Li Li Tel. +86 (10) 8508 7537 li.li@kpmg.com	Cheng Dong Tel. +86 (21) 2212 3410 cheng.dong@kpmg.com	Grace Xie Tel. +86 (21) 2212 3422 grace.xie@kpmg.com	Grace Luo Tel. +86 (20) 3813 8609 grace.luo@kpmg.com	Ivor Morris Tel. +852 2847 5092 ivor.morris@kpmg.com
Hong Kong Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com	Lisa Li Tel. +86 (10) 8508 7638 lisa.h.li@kpmg.com	Marianne Dong Tel. +86 (21) 2212 3436 marianne.dong@kpmg.com	Jie Xu Tel. +86 (21) 2212 3678 jie.xu@kpmg.com	Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com	Curtis Ng Tel. +852 2143 8709 curtis.ng@kpmg.com
	Thomas Li Tel. +86 (10) 8508 7574 thomas.li@kpmg.com	Alan Garcia Tel. +86 (21) 2212 3509 alan.garcia@kpmg.com	Robert Xu Tel. +86 (21) 2212 3124 robert.xu@kpmg.com	Michelle Sun Tel. +86 (20) 3813 8615 micelle.sun@kpmg.com	Benjamin Pong Tel. +852 2143 8525 benjamin.pong@kpmg.com
	Simon Liu Tel. +86 (10) 8508 7565 simon.liu@kpmg.com	Chris Ge Tel. +86 (21) 2212 3083 chris.ge@kpmg.com	William Zhang Tel. +86 (21) 2212 3415 william.zhang@kpmg.com	Bin Yang Tel. +86 (20) 3813 8605 bin.yang@kpmg.com	Malcolm Prebble Tel. +852 2684 7472 malcolm.j.prebble@kpmg.com
	Paul Ma Tel. +86 (10) 8508 7076 paul.ma@kpmg.com	Chris Ho Tel. +86 (21) 2212 3406 chris.ho@kpmg.com	Hanson Zhou Tel. +86 (21) 2212 3318 hanson.zhou@kpmg.com	Lixin Zeng Tel. +86 (21) 3813 8812 lixin.zeng@kpmg.com	Nicholas Rykers Tel. +852 2143 8595 nicholas.rykers@kpmg.com
	Alan O'Connor Tel. +86 (10) 8508 7521 alan.oconnor@kpmg.com	Dylan Jeng Tel. +86 (21) 2212 3080 dylan.jeng@kpmg.com	Michelle Zhou Tel. +86 (21) 2212 3458 micelle.b.zhou@kpmg.com	Hong Kong	Murray Sarelius Tel. +852 3927 5671 murray.sarelius@kpmg.com
	Vincent Pang Tel. +86 (10) 8508 7516 +86 (532) 8907 1728 vincent.pang@kpmg.com	Jason Jiang Tel. +86 (21) 2212 3527 jason.jt.jiang@kpmg.com	Southern China	Ayesha M. Lau Partner in Charge, Tax Hong Kong SAR	David Siew Tel. +852 2143 8785 david.siew@kpmg.com
	Shirley Shen Tel. +86 (10) 8508 7586 yinghua.shen@kpmg.com	Flame Jin Tel. +86 (21) 2212 3420 flame.jin@kpmg.com		Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	
	State Shi Tel. +86 (10) 8508 7090 state.shi@kpmg.com	Sunny Leung Tel. +86 (21) 2212 3488 sunny.leung@kpmg.com	Penny Chen Tel. +1 (408) 367 6086 penny.chen@kpmg.com	Yvette Chan Tel. +852 2847 5108 yvette.chan@kpmg.com	Christopher Xing Tel. +852 2978 8965 christopher.xing@kpmg.com
	Joseph Tam Tel. +86 (10) 8508 7605 laiyu.tam@kpmg.com	Michael Li Tel. +86 (21) 2212 3463 michael.y.li@kpmg.com	Vivian Chen Tel. +86 (755) 2547 1198 vivian.w.chen@kpmg.com	Rebecca Chin Tel. +852 2978 8987 rebecca.chin@kpmg.com	Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com
		Christopher Mak Tel. +86 (21) 2212 3409 christopher.mak@kpmg.com	Sam Fan Tel. +86 (755) 2547 1071 sam.kh.fan@kpmg.com	Matthew Fenwick Tel. +852 2143 8761 matthew.fenwick@kpmg.com	Adam Zhong Tel. +852 2685 7559 adam.zhong@kpmg.com