

China alert

Tax and regulatory developments

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Adjustments to the *Catalogue of Prohibited Goods for the Processing Trade* in 2009

In Brief

- The *2009 Catalogue of Prohibited Goods for the Processing Trade* became effective 3 June 2009 when the Ministry of Commerce and the General Administration of Customs jointly issued Notice No.37.
- The new categorisations may benefit processing trade enterprises related to certain plant, light industrial, steel, petrochemical and non-ferrous metal products.

Relevant regulation discussed in this issue:

2009 Catalogue of Prohibited Goods for the Processing Trade, Notice [2009] No.37, issued by Ministry of Commerce and General Administration of Customs on 3 June 2009, effective from the same day.

Background

To guide the development of the processing trade, China divides imported items into three categories: prohibited, restricted and permitted. For items in the prohibited category, manufacturers need to pay import duty and value-added tax (VAT) in full at the time of importation. This can increase manufacturers' cash outflow and costs of production, and thus potentially weaken their competitiveness.

Processing trade, which is export-oriented, has been seriously hit by the global financial turmoil. According to PRC Customs, the total import and export under processing trade declined by 26.8 percent in the first five months in 2009¹. The 2009 adjustments are aimed at enhancing the competitiveness of China's processing trade in the international market.

Main Content

The notice re-categorises some plant, light industrial, metallic compound, petrochemical, steel and nonferrous metal products from the prohibited catalogue to the permitted one. Processing trade enterprises can now import them under bonded status and do not need to pay import duty and VAT at the time of importation.

Additionally, prohibited items that are under factory transfer or that are substantially processed in special customs zones can be treated as permitted goods and accordingly enjoy bonded status.

¹ Data sourced from the official website of General Administration of Customs of the PRC.

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Implications

Processing trade enterprises importing the re-classified items can directly benefit from this change through reduced manufacturing costs.

Moreover, foreign companies which source these items or related merchandise from China can bargain for a lower price.

KPMG advice

Processing trade enterprises should review whether their imports are affected by the changes to the catalogue. Where applicable, they should then apply to local customs for processing trade registration to enjoy the bonded treatment on their imports.

Companies sourcing from China should also perform a similar review. If appropriate, they may wish to recommend that their suppliers consider doing business under processing trade.

Applying bonded treatment to raw material imports could significantly affect an enterprise's business model. We therefore recommend that companies conduct a detailed review in this regard.

In the current financial and economic climate, policies governing processing trade are changing frequently. Companies should remain alert to further changes and assess whether they may be able to lower their tax burden through restructuring their business models and supply chain management.

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