

Legal Rules on Bonded goods in China

Properties of Bonded Goods

Bonded goods are defined under the PRC Customs Law as the goods, entering the PRC territories with customs approval to defer the payment of duty and VAT, to be reshipped out of the PRC territories after being stored, processed and assembled.¹ The Chinese law provides two categories of bonded goods: bonded goods kept for later use or consumption; bonded goods for use in export processing or assembling.

There are several properties for bonded goods. First, since they are not treated as imports, bonded goods are not subject to the requirement for import licenses. Second, one can add value to the bonded goods by performing processing and assembling work on them, or one can just keep them in storage in original shape and condition for later use or consumption. If the bonded goods in storage are later sold for consumption in the PRC, the Chinese customs shall collect import duty and VAT on the consignee who imports the bonded goods. Accordingly, the status of the bonded goods changes from bonded goods into general goods, and the rules for import license shall apply. If the bonded goods are later sold for consumption outside China, there will be no duty and tax consequences. One example of this tax exemption will be the fuel and consumable supplies imported for later use by aircraft and ocean going vessels in international transportation. Bonded goods can be used in the manufacture of export goods under an export processing agreement. When this happens, the goods under export processing is subject to the special customs rules governing the recording, use, movement and disposal of those goods.² Bonded goods can be used as a security for legal charges, pledged or be the subject of a lien, but the bonded goods used for export processing is not permitted to have such financing arrangements.³ The Chinese customs shall not collect duty and VAT on the bonded goods imported under export processing contracts on condition that they are reshipped out of China after the completion of the processing activities within one year. The Chinese customs shall collect duty and VAT if the bonded goods used in export processing stay inside the PRC after the allowed one-year period is over.⁴ In addition, the requirement for import license shall apply.⁵ Third, since the export processing enterprise (the EPE) can take delivery of the imported goods without the requirement for the payment of duty and taxes, the Chinese law provides that the EPE needs to provide security for the importation of the bonded goods.⁶ In practice, the

¹ See Article 100 of the PRC Customs Law.

² Please refer to the Administration Measures by the PRC Customs over the Supervision of Bonded Goods under Export Processing, issued under Order 113 (2004) by the General Administration of Customs.

³ See Article 7 of the Administrative Measures by the PRC Customs over the Supervision of Bonded Goods under Export Processing, issued under Order 113 by the General Administration of Customs.

⁴ Goods warehoused in free trade zone and bonded logistic parks are not subject to this one-year rule.

⁵ See Article 33 of the PRC Customs Law.

⁶ See Article 59 of the PRC Customs Law.

bonding system has two variants depending on the categories of the bonded goods used in export processing and the classification of the EPE by the governing customs. One is for the EPE to place a refundable deposit with the financial institution as designated by the governing customs. The other is for the EPE to set up a nominal security accounts without the requirement to put up deposits. ⁷ Fourth, the bonded goods are under customs supervision throughout the allowed period of stay inside the PRC, commencing from the date of customs release to the date of lifting customs supervision. Fifth, there is a legal requirement for customs verification that takes place before the lifting of customs supervision over the bonded goods, in order that the EPE can discharge the legal liability for the importation of the bonded goods under the production contract. ⁸ The EPE can redeem the security deposit afterwards.

⁷ See Notice issued under Order Shu Jian 522 (1999) by the General Administration of Customs on 12th July 1999.

⁸ See Article 30 of the Administrative Measure for the Supervision by the PRC Customs over the Bonded Goods Used in Export Processing, issued under order 113 (2004) by the General Administration of Customs.