

## Levying and Collection and Refund of Interest on Bonded Processing Trade Goods

General Administration of Customs Public Announcement No. (2006) 53

20 September 2006

Pursuant to the *Regulations of the People's Republic of China on Import and Export Tariffs* (State Council Order No. 392, hereinafter referred to as the "Tariffs Regulations") and the *Notice of the General Office of State Council on Forwarding the "Opinions on Further Improving Account System for Bank Guarantee for Processing Trade" of the State Economic and Trade Commission and Other Departments* (*Guobanfa* (1999) 35) and other relevant provisions, public announcement on issues relating to levying and collection and refund of interest on bonded processing trade goods is hereby given as follows:

1. Where bonded processing trade goods are wholly exported within the stipulated validity period (including approved extensions of the validity period), the Customs shall notify the Bank of China to refund the full amount of the guarantee and the interest on current deposit.
2. Where bonded processing trade materials or finished products are sold in the domestic market, the Customs shall, in addition to levying tax pursuant to the law, collect interest on deferred tax. The specific measures on collection of interest on deferred tax shall be as follows:
  - (i) The annual interest rate for short-term loans of six months to one year published by the People's Bank of China (hereinafter referred to as the "annual interest rate for short-term loans") shall be the rate of interest for deferred tax; the Customs may adjust the latest "annual interest rate for short-term loans" published by the People's Bank of China at any time and implement the adjustment following public announcement. The prevailing "annual interest rate for short-term loans" is 6.12%.

Where an expiring contract is not granted extension and is deemed a domestic sale due to a revision in processing trade policy, interest on deferred tax shall be levied and collected pursuant to the interest rate for current deposits published by the People's Bank of China in the year preceding the issued Customs duties payment notice certificate; for tax levies on domestic sale of bonded processing trade goods that are expired but not cancelled in the manual, the levying and collection of interest on deferred tax shall be pursuant to the provisions of the preceding paragraph, ie interest shall be calculated based on the "annual interest rate for short-term loans".

(ii) Application of the interest rate:

The Customs shall calculate interest on deferred tax based on the interest rate in the issued Customs duties payment notice certificate, ie according to the interest rate determined in (i) above.

(iii) Levying and collection of interest on deferred tax and computation method:

Interest on deferred tax on processing trade shall be levied and collected on a daily basis pursuant to the latest interest rate for deferred tax published by the General Administration of Customs on the date of issue of the Customs duties payment notice certificate.

The method of calculating interest on deferred tax is as follows:

Interest on deferred tax to be levied = Tax amount to be levied × calculation period × interest rate for deferred tax ÷ 360

(iv) Determination of the interest calculation period:

(a) The interest calculation period for interest on deferred tax for bonded processing trade materials or finished products approved for sale in the domestic market shall commence on the date of importation of the first batch of materials under the corresponding processing trade contract; the interest calculation period for materials or finished products under processing trade Type "E" electronic accounts approved for sale in the domestic market shall commence on the date of most recent electronic account verification and cancellation corresponding to those materials or finished products (where no date of verification and cancellation exists, the interest calculation period shall commence on the date of importation of the first batch of materials in the electronic account).

The interest calculation period for interest on deferred tax on the aforesaid goods shall end on the date of issue of the Customs duties payment notice certificate.

(b) Where bonded processing trade materials or finished products are sold in the domestic market without approval and in violation of Customs control provisions, the interest calculation period for interest on deferred tax shall commence on the date of importation of the first batch of materials under the corresponding processing trade contract; where the domestic sale involves multiple contracts and the imported materials or finished products sold in the domestic market fail to correspond with the contracts, the interest calculation period shall commence on the date of importation of the first batch of materials under the latest contract; where the materials or finished products under processing trade Type "E" electronic account are sold in the domestic market without approval, the interest calculation period shall commence on the date of the most recent verification and cancellation in the electronic account corresponding to the materials or finished products sold in the domestic market (where no date of

verification and cancellation exists, the interest calculation period shall commence on the date of importation of the first batch of materials in the electronic account); where the date of commencement of the interest calculation period cannot be determined by the aforesaid methods, no interest on deferred tax shall be levied.

The interest calculation period for interest on deferred tax on domestic sale in violation of the provisions shall end on the date when the domestic sale of the bonded materials or finished products is made. Where the date of domestic sale cannot be determined, the interest calculation period shall end on the date when the Customs makes the discovery.

Where bonded processing trade materials or finished goods are sold in the domestic market in violation of the provisions, a late payment fine shall also be imposed based on Article 2 of the Public Announcement No. (2004) 39 pursuant to the relevant provisions of Tariffs Regulations.

(c) Where subsequent make up tax payments are required for bonded processing trade goods but the Customs failed to deal with the case as a violation of provisions, the interest calculation period for interest on deferred tax shall be determined with reference to the provisions of (ii).

(d) Reference shall be made to the aforesaid provisions for the handling of trimmings, leftover materials, rejects and by-products of processing trade goods and bonded goods damaged by disaster, which are sold in the domestic market and are subject to interest on deferred tax.

(v) With regard to bonded goods under the processing trade manual that are administered by way of actual transfers from the guarantee account (including letter of guarantee for tax payment), wherein tax formalities for domestic sale are being completed, and the interest on deferred tax imposed by the Customs is greater than the interest on the guarantee for the corresponding account, the Bank of China shall endorse the Customs duties payment notice certificate before returning the payment notice certificate; and the Customs shall re-issue two payment notices, one payment notice shall convert the full amount of interest on the guarantee account to interest on deferred tax and the other payment notice shall be a notice of the shortfall amount of interest on the guarantee account; and the enterprise shall make payment separately.

3. Where a domestic sale is examined and approved, the Customs shall, issue an approval decision for domestic sale, issue a "Liaison Form for Levying of Tax on Domestic Sale of Processing Trade Goods" and state the relevant comments thereon, and simultaneously state

the applicable type of interest rate for the interest on deferred tax as "current deposits" or "short-term loans" to the enterprise for the completion of Customs clearance formalities.

The enterprise shall present hard copies or electronic data of the aforesaid to complete Customs clearance formalities. When completing the Customs declaration form for domestic sale, the enterprise is not required to complete the remarks column if the short-term loan interest rate is applicable; where the current deposit interest rate is applicable, the enterprise is required to state the wording "current" in the remarks column.

The Customs shall verify the hard copies or electronic data of the "Liaison Form for Levying of Tax on Domestic Sale of Processing Trade Goods" and the data in the Customs declaration form for domestic sale, to confirm that no error exists before completing formalities for forms examination, tax levying and Customs clearance formalities and other formalities for the domestic sale of goods pursuant to the relevant prevailing provisions.

4. The *Notice of General Administration of Customs on Issues of Levying and Collection of Interest on Deferred Tax for Tax Payment Made up for Domestic Sale of Bonded Processing Trade Goods* (Shushui (1999) 452), the *Notice of General Administration of Customs on Applicable Interest Rate for Interest on Deferred Tax for Tax Payment Made up for Domestic Sale of Processing Trade Goods in Year 2003* (Shushuifa (2003) 126) and the relevant provisions in Article 1 of *General Administration of Customs Public Announcement No. (2004) 39* shall be repealed simultaneously.

5. This Public Announcement shall be effective 10 October 2006.

Notice is hereby given.