

China Customs & Trade Alert

New Customs Duty & Import VAT Incentives for LCD Manufacturing



In May 2009, the Ministry of Finance (MoF) and the General Administration of Customs (GAC) issued two announcements on the tax policies for advanced display device manufacturing enterprises. The main points in regard to these new encouragement policies are:

- Set forth some preferential policies for new display devices manufacturing enterprises.
- For the period from 1 January 2009 to 31 December 2011, importation of the following material for manufacturing purposes will be exempt from custom duty and/or import VAT:
 - Construction material and supporting systems for the “clean room”
 - Spare parts used in manufacturing
 - Raw materials and consumables including those used in R&D (customs duty exempt only)
- Only items for “self-use” shall enjoy the import tax incentives.
- Lists of raw materials, consumables, and a list of manufacturing enterprises are prescribed and attached to the regulation.

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The Harmonized System (HS) classifications for LCD panels are determined by many factors such as size, adapters, modules and interfaces. The issue is quite complicated and classification disputes may arise from time-to-time. The different candidate HS codes also have a significant customs duty differential that ranges from 0% to 35%. Under the new policy, the qualified LCD manufacturing enterprises can enjoy the customs duty exemption, and mitigate the risk of HS classification disputes to reduce costs and improve clearance efficiency.

One challenge is how to interpret the term “cannot be manufactured in China” from an engineering and technical perspective. This criterion must be overcome in order to enjoy the benefits of this policy. Case-by-case research consultation with the respective authorities may be appropriate accordingly.

Historically, some LCD manufacturing enterprises have intended to submit an Interim Duty Rate application to Customs for certain imported raw materials (i.e. those attracting a higher duty rate). Under the new policy, the customs duty could be exempted rather than reduced, if the LCD manufacturer properly submits the application and receives approval.

In a summary, the preferential policy provides not a cost saving opportunity but may also improve clearance times and supply-chain efficiency, which can also save time, reduce costs and improve profitability.

Contacts

For further assistance about PwC's customs and international trade services please contact:

Colbert Lam

Partner

+852 2289 3323

colbert.ky.lam@hk.pwc.com

Susan Ju

Director

+86 (10) 6533 3009

susan.ju@cn.pwc.com

Damon Paling

Partner

+86 (21) 2323 2877

damon.ross.paling@cn.pwc.com

Michael Jiang

Director

+86 (21) 2323 2766

michael.h.jiang@cn.pwc.com

For more information, please also visit: www.pwccustoms.com

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