





China processing trade solution

Bonded consignment processing

 Current position	 What to do/ potential benefits	 How to proceed	 Who should consider?
<p>Two commonly used processing trade models are import processing (进料加工) and contract processing(来料加工)</p> <p>The said two processing trade models may suffer sizeable VAT leakage due to reduction in export VAT refund rate and the new indirect tax regime</p> <p>Overseas principle may lack control on key raw materials / components under the said two processing trade models</p> <p>Overseas principle may have processing arrangements with different manufacturing sites in China – operation decentralised</p> <p>A less commonly used model – Bonded Consignment Processing (进料委托加工, BCP) should also be considered when formulating processing trade operations in China</p>	<p>What to do:</p> <p>Undertake a processing trade model review to release the indirect tax benefits from adopting appropriate processing trade model</p> <p>Potential benefits:</p> <p>Reduce irrecoverable VAT cost for export</p> <p>Reduce the risk of losing control on key raw materials / components</p> <p>Centralised/Simplified customs handbook and export VAT refund management</p> <p>Segregation of functions between raw material sourcing & sales of finished products and processing into two China entities</p> <p>Potential corporate income tax benefits</p>	<p>The 5-phase approach:</p> <ol style="list-style-type: none"> 1. Review the current model / operation 2. Assess whether (and how much) benefits could be brought by BCP 3. Analyse gaps to meet BCP application requirements 4. Identify actions to close gaps 5. Implement BCP (e.g., application to MOFCOM + Customs, internal change management, closing of existing customs handbook, changes to the export VAT refund filing processes etc) 	<p>Businesses who are planning to adopt processing trade</p> <p>Businesses who are suffering sizeable VAT leakage upon export</p> <p>Businesses who could leverage from its export VAT refund rate profile</p> <p>Businesses with a group of manufacturing sites in China of which the operations are decentralised</p> <p>Businesses wishing to explore central procurement</p> <p>Businesses wishing to explore consolidated sales model in / from China</p>

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