



Tax Newsflash

China

Deloitte Tohmatsu Tax Co.

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Voluntary Disclosure Program Introduced in China (Shanghai) Pilot Free Trade Zone

(1) Introduction

In a bulletin issued on 4 July 2014 (Bulletin 32), Shanghai Customs introduced a pilot Voluntary Disclosure Program (VDP) in the China (Shanghai) Pilot Free Trade Zone (FTZ) that aims to encourage companies to voluntarily report noncompliance with the Customs rules and regulations, in exchange for potential relief from penalties associated with the noncompliance. It is anticipated that the VDP eventually will be rolled out to the city of Shanghai, and then nationwide. Bulletin 32 applies as from the date of issuance.

(2) Highlights of VDP

1) Qualifying taxpayers

All companies registered with Customs in the FTZ can participate in the VDP.

2) Reportable noncompliance

A company participating in the VDP can report to Customs any noncompliance associated with:

- Imports/exports under general trade;
- Imports/exports under processing trade, and those relating to bonded goods;
- Goods eligible for duty relief (including equipment supplied for no consideration by a

foreign investor for processing trade purposes);

- Customs declarations, bonded logistics and sales of duty-free goods; and
- Any other activities related to import/export operations.

3) Potential relief for participation in the VDP

The Customs authorities can grant the following relief to a company that comes forward and reports its noncompliance:

- Waiver or reduction of administrative penalties;
- Waiver or reduction of the late payment surcharge, provided the underpaid duty was collected within the prescribed timeline and the company had difficulties in paying the surcharge;
- No downgrading of the Customs compliance rating for the company; and
- Exclusion from the Customs audit list for the following year, provided the company has rectified its noncompliance and improved its internal controls.

(3) Deloitte comments

Combined with the measures relating to the voluntary reporting of noncompliance and the

role of intermediaries that were added to a discussion draft of the Customs Audit Regulations in June 2014, the VDP should provide an effective Customs risk management tool for both Customs and taxpayers. Affected companies should consider conducting regular self-reviews with the assistance of Customs professionals to identify and report noncompliance under the VDP and seek potential relief from penalties, surcharges and downgrading.

A number of countries have used voluntary compliance programs as a means to facilitate compliance; avoid costly audits, litigation, etc.; and improve revenue collection. The Chinese Customs authorities are expected to use the experience gained by their counterparts in such jurisdictions to issue further guidance on the process and requirements for reporting and supporting documentation, etc. Companies that wish to participate in the VDP should closely monitor future developments and consult professionals where necessary.

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