

Gaining certainty in Customs Valuation.



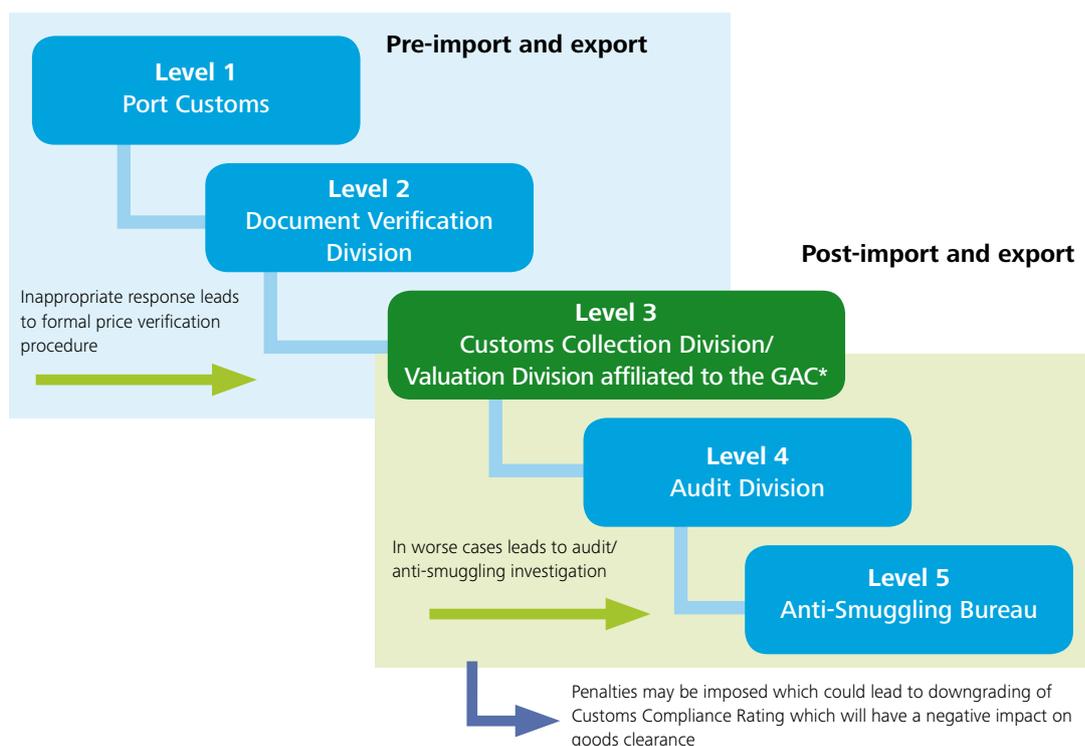
Customs Valuation provides the basis on which customs duty and import and export taxes are calculated. As it is a technically complex matter, companies face challenges in understanding the rules and implementing local Customs practices. In many cases, in particular for multinational companies, the challenges come due to Transfer Pricing (“TP”) issues which fall outside of the Customs discipline and it is difficult to find the balance between the TP methodology that can be easily implemented for Customs purposes. As a result, we have seen many companies experience difficulties in determining the correct Customs Valuation.

Gaining certainty in managing your Customs Valuation is a critical component to managing a successful business. Having worked with our clients on Customs Valuation, Deloitte has established a dedicated team focusing on this subject matter to provide you with certainty in Customs Valuation with an experienced team who has guided companies through to success whether it is to resolve Customs challenges or to implement a

strategy due to, for example, changes to the TP model. Deloitte is able to work with you and provide tailored solution in order for the business to gain more certainty in your import/export operations.

Various challenges from Customs

The complexity of Customs Valuation is understood by the Customs Authorities who are becoming increasingly more sophisticated with their control and have stepped up their efforts to ensure compliance. When faced with a challenge from the Authorities, companies first need to understand the stage of the audit from Customs as this will dictate the approach and, most importantly, the strategy needed in the response. The values declared by companies are potentially subject to 5 levels of challenges, all requiring companies to provide timely responses. Failure to properly address the questions from Customs will trigger formal price verification procedures, which are often time consuming and costly to the business.



* GAC stands for General Administration of Customs

Is your business at risk?

Commonly, when one or more of the following circumstances apply, it is likely that your import value is on the radar screen of Customs:

- Import from related parties, especially when there is retrospective price adjustments – Chinese Customs often assumes the special relationship between the buyer and seller has influenced the import prices unless the importers can prove otherwise;
- Significant fluctuation of import prices, comparing with historical records or with identical/similar goods imported by other companies – Customs would request importer to justify the reasonableness of such variance;
- Large amount of non-trade payments to overseas (such as royalty, service fee, commission fee) – Customs tends to include the payment into the dutiable value of the imported goods;
- Import of free-of-charge goods into China (such as sample for testing, warranty parts, capital equipment) – Although there is no commercial payment for goods, Customs will need to assess a reasonable value for duty purpose.

Best practice

A best practice program will help companies to proactively manage their Customs Valuation which minimises the uncertainties regarding Customs Valuation.

Being prepared before a Customs challenge	When challenged by Customs
<ul style="list-style-type: none"> • Assessment and control of Customs Valuation risk associated with: <ul style="list-style-type: none"> - Changes to import transaction model or import price - Transfer pricing policy - Non-trade payment - Free-of-charge imports • Securing formal or informal pre-Valuation advise from Customs; • Supply chain planning. 	<ul style="list-style-type: none"> • Understand which level the challenge has been raised at; • Understand Customs' focus and key concern; • Address the questions raised in a timely manner. A well-structured explanation letter, with the appropriate supporting paperwork, will be critical to a successful closure of the case; • Understand if there are business units within your company that may be affected; • Understand how one answer provided may affect future operations.

Deloitte Customs Valuation Team will provide you with certainty

Deloitte has established a centre of excellence with focus on Customs Valuation and our goal is to support our clients with a strategic management of Customs Valuation. The national Customs Valuation Team is composed of specialists with various backgrounds, including ex-Customs officials. Our abundant experience in various fields endows us with deep insights into the operating norms and requirements of international trading. We have experts with many years of experience of working in Customs in North, East, and South China. In addition, given the close interaction between Customs Valuation and TP, our team also includes TP specialists (some senior ex-officials) knowledgeable on Customs issues to deliver a complete solution for you.

Deloitte Valuation Centre



Deloitte China Valuation team would be glad to assist you with the Customs Valuation, including:

- Tailored training courses on Customs Valuation hot topics, policy updates, case studies, as well as the impact on your business;
- Valuation health check, which provides an independent assessment of Valuation risks through a high level review of the supply chain arrangement and pricing policy. Through this exercise, we will be able to assist company to identify potential risks and prioritise the focuses from a Customs Valuation perspective;
- Review of royalty arrangement and service agreements from both Customs Valuation and tax perspectives;
- Review of TP documentation/benchmark studies from Customs Valuation rules and practice perspectives. This is to mitigate the risks that the documents to be provided to tax authorities give rise to exposures from a Customs Valuation perspective;
- Assistance in the implementation of TP policy from a Customs perspective. Customs focus on a transaction basis, so how the TP policy is implemented is important;
- Assistance in responding to Customs challenge on Valuation of import/export. We will work with the company to develop a strategy, and provide guidance throughout the process. We will also help with the preparation/review of document to be submitted, and communication/negotiation with various Customs authorities all over China.

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