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# ***CBIC issues FAQs on manufacturing and other operations in customs bonded warehouse***

*July 15, 2020*

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## ***In brief***

To promote the “Make in India” initiative and as part of the ease of doing business measures, the Central Board of Indirect Taxes and Customs (CBIC), had notified the Manufacture and Other Operations in Warehouse (No. 2) Regulations, 2019 (Scheme). This Scheme enabled businesses to import raw materials and capital goods without payment of duty for manufacturing and other operations in a bonded manufacturing facility for exports, while allowing import duty deferral for the domestic market.

The key features of the Scheme are as follows:

- Locational flexibility with no geographical limitation.
- One-time approval.
- Deferment of customs duty on imports and duty saving to the extent that final products are exported out of India.
- No export obligation with no limitation on export or domestic clearances.
- Minimal compliances, documentation and approval requirement.

The CBIC explained the modalities of the Scheme through Circular No. 34/2019-Customs dated 1 October 2019.

Basis inputs received in trade consultation, the CBIC has released a set of Frequently Asked Questions (FAQs)<sup>1</sup> relating to undertaking manufacturing and other operations in a bonded warehouse. The FAQs have been summarised below.

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## ***In detail***

### ***Eligibility***

- Any person who is a citizen of India or entity incorporated in India is eligible. The eligible person or entity has been granted a licence for the establishment of a private

bonded warehouse in terms of Private Warehouse Licensing Regulations, 2016, or alternatively, is seeking permission to establish one, along with the approval to undertake manufacturing in bond in terms of section 65 of the

Customs Act, 1962 (Customs Act).

- Manufacturing and other operations in a bonded warehouse under the Scheme is allowed only to a private bonded warehouse licensed under section 58 of the Customs Act and not a

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<sup>1</sup> [Frequently asked questions on Manufacture and Other Operations in Customs Warehouse](#)

private bonded warehouse licensed under section 57 of the Customs Act.

- Eligibility to seek approval under the Scheme is not linked to the quantum of clearances for exports and the domestic market.
- Any existing domestic tariff area manufacturing unit (i.e. not an Export Oriented Unit/ Special Economic Zone) can seek approval under the Scheme. The existing capital goods and inputs must be accounted in the accounting form prescribed in the Scheme.
- In terms of infrastructure, the regulations Scheme does not mandate that a fully enclosed structure is a prerequisite for the grant of licence. The applicant needs to ensure that the proposed site or building is suitable for the purpose of secured storage of goods and discharge of compliances, such as proper boundary walls, gate(s) with access control and personnel to safeguard the premises, etc. Moreover, the requirement may vary in the operations, nature of goods, etc. Hence, the approving customs authorities will consider the relevant facts in considering the application.

#### ***Physical control and validity of approvals***

- The customs authorities have no physical control of the unit. However, the unit will be subject to risk-based audits without any defined periodicity.
- The license and permission granted is valid unless it is cancelled or surrendered. Therefore, there is no requirement of license renewal.

#### ***Duty/ tax implications on various transactions***

An approved unit under the bonded warehouse can import capital goods without payment of duty. The import duties stand deferred until they are cleared for home consumption or are exported, in which case, there is no duty liability. The capital goods can be cleared for home consumption on the payment of applicable duty without interest or exported after use, without the payment of duty.

#### ***Duty deferment is without any time limitation***

- Inputs/ raw materials can be imported and deposited in the bonded warehouse without the payment of Basic Customs Duty and Integrated Goods and Services Tax (IGST). No interest is applicable at the time of payment of duties on the clearance of finished goods manufactured using inputs/ raw materials. Only the duties on inputs/ raw materials are to be paid when the resultant goods are cleared for home consumption apart from GST/ IGST on the finished goods.
- No incremental duty on the finished goods cleared into Domestic Tariff Area is payable on account of imported capital goods (on which duty has been deferred).
- The eligibility to avail export benefits under the Foreign Trade Policy or seek exemption under the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017 would depend upon the respective Schemes. A unit operating under the Scheme can avail any other benefit, if the Scheme allows.

#### ***Procedure/ compliances***

- Depreciation is not available if the imported capital goods (on

which duty has been deferred) are cleared for home consumption. If the capital goods are exported, the valuation will be in terms of section 14 of the Customs Act read with the Customs Valuation (Determination of Value of Export Goods) Rules, 2007.

- A warehouse keeper needs to be appointed for a premise to be licensed as a private bonded warehouse to maintain accounts correctly and sign documents on behalf of the licensee.
- The Generally Accepted Accounting Principles will be followed for inventory control. The First in First Out method can be followed.
- A licensee can surrender the licence granted to him by making a request in writing to the Principal Commissioner of Customs or Commissioner of Customs. On receipt of such request, the licence will be cancelled subject to payment of all dues and clearance of remaining goods in such warehouse.

#### ***The takeaways***

Manufacturing and Other Operations in Warehouse Regulations, 2019 extends operational flexibility to businesses in terms of duty deferment, interface with domestic market, etc. Businesses are exploring this as an alternative or an option for undertaking manufacturing in India. The FAQs will hopefully address the concerns of businesses and enable them to adopt the Scheme.

#### ***Let's talk***

For a deeper discussion of how this issue might affect your business, please contact your local PwC advisor

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