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Ruling re. tax treatment on discrepancy of material balance

At a glance...

General Department of Customs' ruling issued to an export processing enterprise re. tax treatment of discrepancies in material levels in accounting books and customs finalization report.

Materials imported by Export Processing Enterprises (EPEs)

Materials imported by EPEs for export production are duty exempt. Such materials and their usage are subject to supervision by Customs. Accordingly, EPEs are required to submit periodic reports on usage status of the materials level (customs finalization reports) to Customs. When it comes to a customs check/audit, any discrepancy in material levels between customs finalization reports and accounting books can result in an import duty claw-back thereon. This is a common issue for EPEs.

New General Department of Customs (GDC) ruling

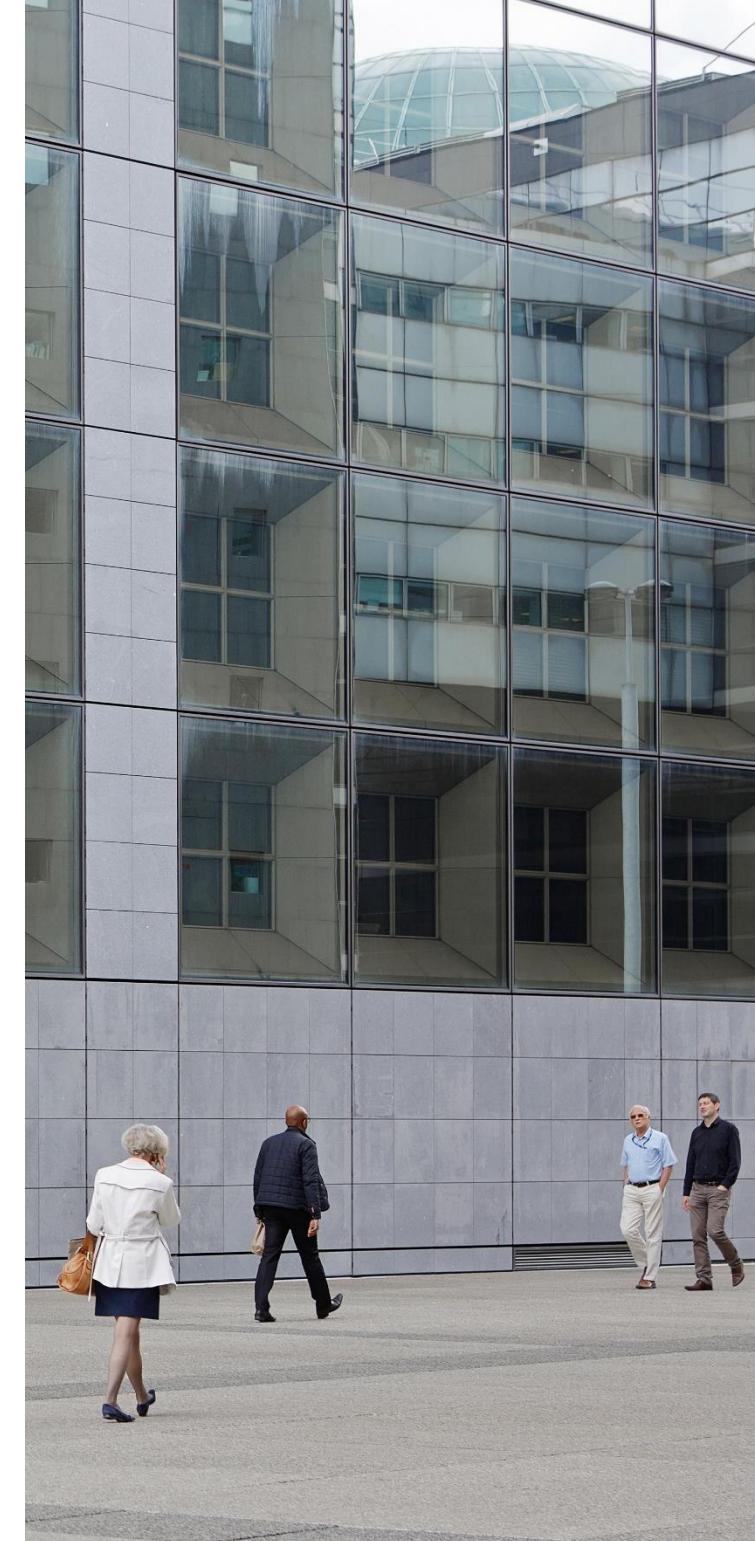
On 29 September, GDC issued Official letter no. 9376/TCHQ – TXNK on the tax treatment of such discrepancies.

Discrepancies can be a surplus or minus. Surplus discrepancies arise where the material balance in the accounting books is higher than that reported in the finalization report; and vice versa for the minus. A minus could be taken as indicating that materials have been sold domestically instead of used for export production, so that import duty is assessed thereon. The issue mainly derives from the difference in consumption norms registered with Customs (before 1 April 2015) and actual consumption.

According to OL 9376, Customs will not now assess import tax on surplus discrepancies if the materials are still in stock.

Customs also will not assess import tax (import duty and VAT) on minus discrepancies where:

- (i) This is a result of declaration of consumption norms which is lower than actually used;
- (ii) Differences in measurement unit between the EPE and Customs;
- (iii) No local sale of materials has been made by the EPE;
- (iv) Customs cannot find any evidence of such local sale



Contact us

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