



Overview of Customs Bonded Warehouse

CA-SHRAVAN GEHLOT- Connect Easy- July-2022

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What is Bonded warehouse scheme

Section 57 – Public Warehouse

- A site or building that is licensed as such by the Principal Commissioner or Commissioner of Customs, as the case may be, under **Section 57**, wherein dutiable goods may be deposited
- Includes licensing of public warehouse to an undertaking of Central / State government or Union Territory or Ports notified under Major Ports Trust Act.

Section 58 – Private Warehouse

A site or building that is licensed as such by the Principal Commissioner or Commissioner of Customs, as the case may be, under **Section 58**, wherein dutiable goods imported **by or on behalf of the licensee** may be deposited

Section 65 – Bonded Manufactures Warehouse

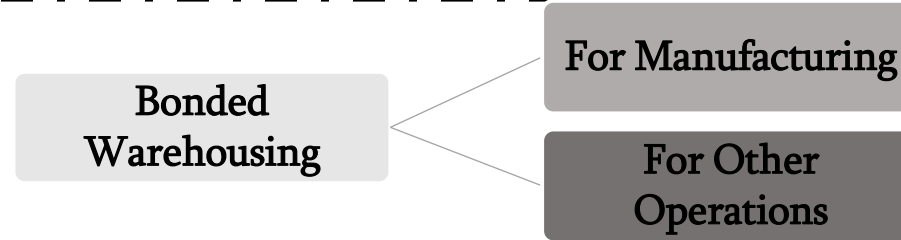
Section 65 of the Customs Act, 1962 ('the Act') provides that owner of any warehoused goods may carry on any manufacturing process or other operations in the warehouse in relation to such goods with the permission of Specified officers

- Customs bonded warehousing scheme was launched in May 2016 under Section 65 of the Customs Act, 1962
- CBIC revamped the Scheme vide ***Notification 69/2019-Customs (NT) dated October 01, 2019***, read with ***circular 34/2019 Customs***
- It is further amended by notification 76/2020 Customs
- CBIC has collaborated with '**Invest India**' for promotion of the Scheme and facilitation of investors.
- Notification 67/2019 listed down MOOWR,2019 Regulations which provides about Modus-Operandi of the scheme.

Who can apply for this scheme

Following Unit is eligible to apply for this Scheme:

- ✓ The Unit that operates under Section 65 or
- ✓ The Unit applying for the permission to operate under Section 65 of the act,
*in warehouse licensed under Section 58 of the Act. (amended by notification 76/2020 Customs) **

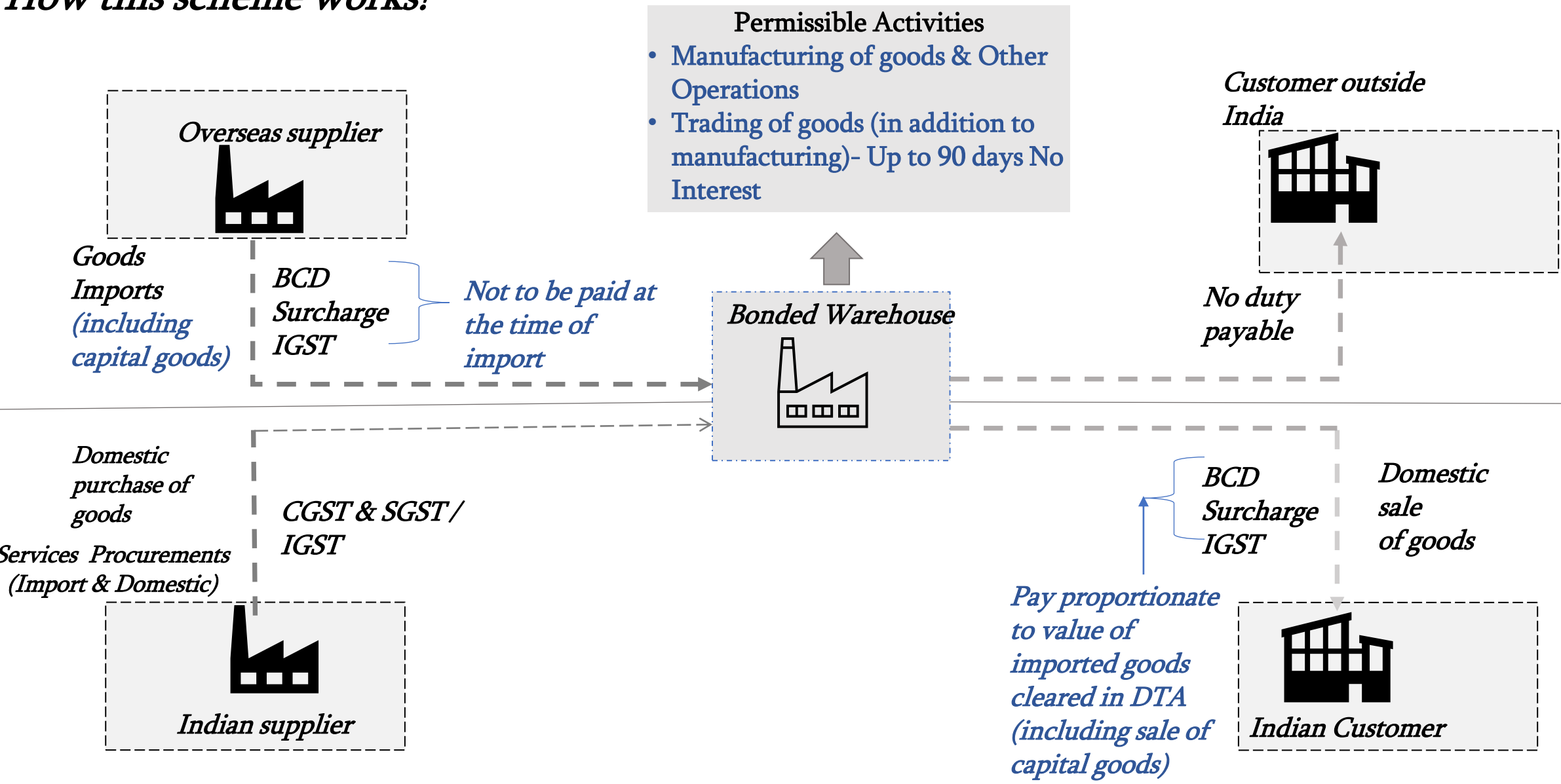


The Term Manufacture is defined under section 2(f) of Central Excise Act, 1944 & 9.31 of FTP as follows:

- *incidental or ancillary to the completion of a manufactured product;*
- which, in relation to the goods specified in the Third Schedule, involves **packing or repacking** of such goods in a unit container or **labelling** or **re-labelling** of containers including the declaration or alteration of retail sale price on it or adoption of any other treatment on the goods to render the product marketable to the consumer;

FTP 9.31: Manufacture" means to *make, produce, fabricate, assemble, process or bring into existence, by hand or by machine, a new product having a distinctive name, character or use and shall include processes such as refrigeration, re-packing, polishing, labelling, Re-conditioning repair, remaking, refurbishing, testing, calibration, re-engineering.*

How this scheme works!



Benefits of this scheme

Deferred Duty on Import of Raw Material & Capital Goods

Until the clearance of finished Goods, duty on import of raw material used in manufacturing or other operations is deferred. It will be waived in case finished goods are exported.

No Interest liability on above deferred duty

No Geographical Restrictions

The Warehouse can be registered wherever it is situated irrespective of any locational barrier

Rebate/Refund of IGST paid is eligible

With bonded manufacturing warehouse facility, various benefit / other schemes like EPCG, Advance authorization etc., can also be claimed

No Export Obligation

No Export obligation to be met by the unit unlike in the current existing schemes like Advance Authorization, EOU, EPCG etc

No bar on Period of warehousing goods

Capital and non-capital goods (raw materials, components, etc..) can **remain warehoused until clearance or consumption**

Ease of Compliance

All records of manufacturing and other operations to be maintained digitally in a single format as specified in Annexure B of MOOWR,2019

No Interest liability up to 90 days On goods sold as such

No liability to pay interest up to 90 days if imported goods are sold as such by unit (i.e., Trading of goods is permitted with payment of duty and no interest upto 90 days)

Seamless warehouse Transfer

Goods can be transferred from the bonded facility to another facility without payment of duty

Validity of license

There is no validity of license obtained by the unit unlike other schemes like SEZ, AA, EPCG, EOU.

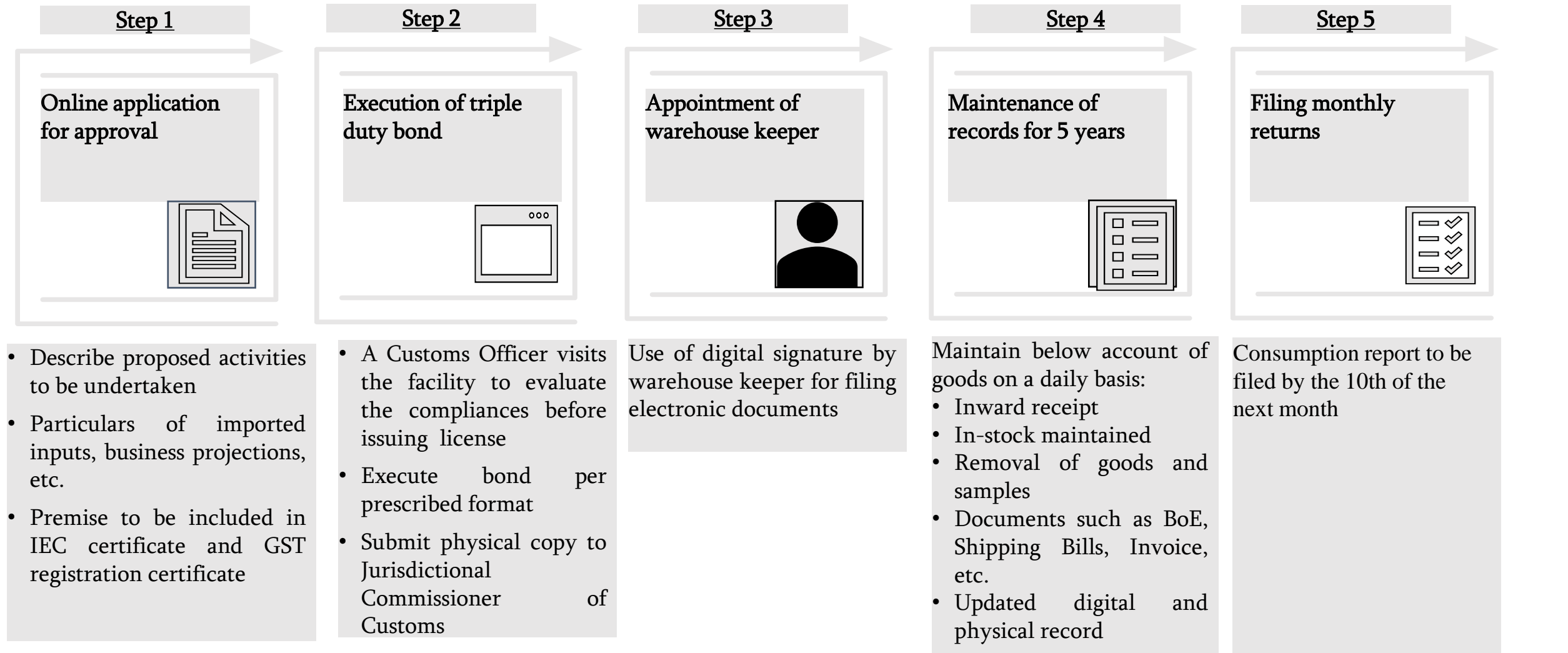
Comparison with other schemes –(1/2)

| Parameters | Advance Authorization(AA) | SEZ | EPCG | EOU | Bonded Warehouse |
|-----------------------------------|--|---|--|---|--|
| Concept | AA shall be granted on pre-import basis with 'Actual user' condition for duty free | Designated duty-free enclave where manufacturing/service operations allowed | Enables an importer to import capital goods at zero rates of customs duty | Similar to SEZ where manufacturing/service operations allowed | Imported goods are stored under Customs control in designated place without payment of import duties |
| Need for License to import | Yes | No | Yes | Yes | No. However registration certificate is required and need to mention BOE. |
| Validity of license | 12 months | Limited to certain period: (eg. 5/10 years) | 24 months | 60 months | NA |
| Adherence to SION Norms | Yes | NA | NA | Yes | Norms to be defined by the company |

Comparison with other schemes –(2/2)

| Parameters | Advance Authorization(AA) | SEZ | EPCG | EOU | Bonded Warehouse |
|--|---|---|--|---|--|
| Eligibility criteria | Only available for specific products based on rules under FTP | Requires minimum hectares of land (Normally 50 hectares land) | Only available for capital goods with export obligation | Minimum investment of INR 10 / 50 million in plant & machinery | Any existing or new factory can be converted to a bonded Premise |
| Export Obligation | Minimum 15% value addition or such value addition given for specific categories of products / sectors | Positive Net Foreign Earning (NFE) requirement in 5 years from commencement of operations | Export value equivalent to 6 times of duty saved to be satisfied within 6 years from date of issue of EPCG authorisation | Positive Net Foreign Earning (NFE) requirement in 5 years from commencement of operations | No Export Obligation |
| Value on which import duty is payable | NA – as AA is given only on pre-import condition for exporting the final product | Value of goods sold from SEZ to DTA including value additions | NA | For DTA clearance permission is required | Import value of inputs used for domestic clearance |

Application Procedure

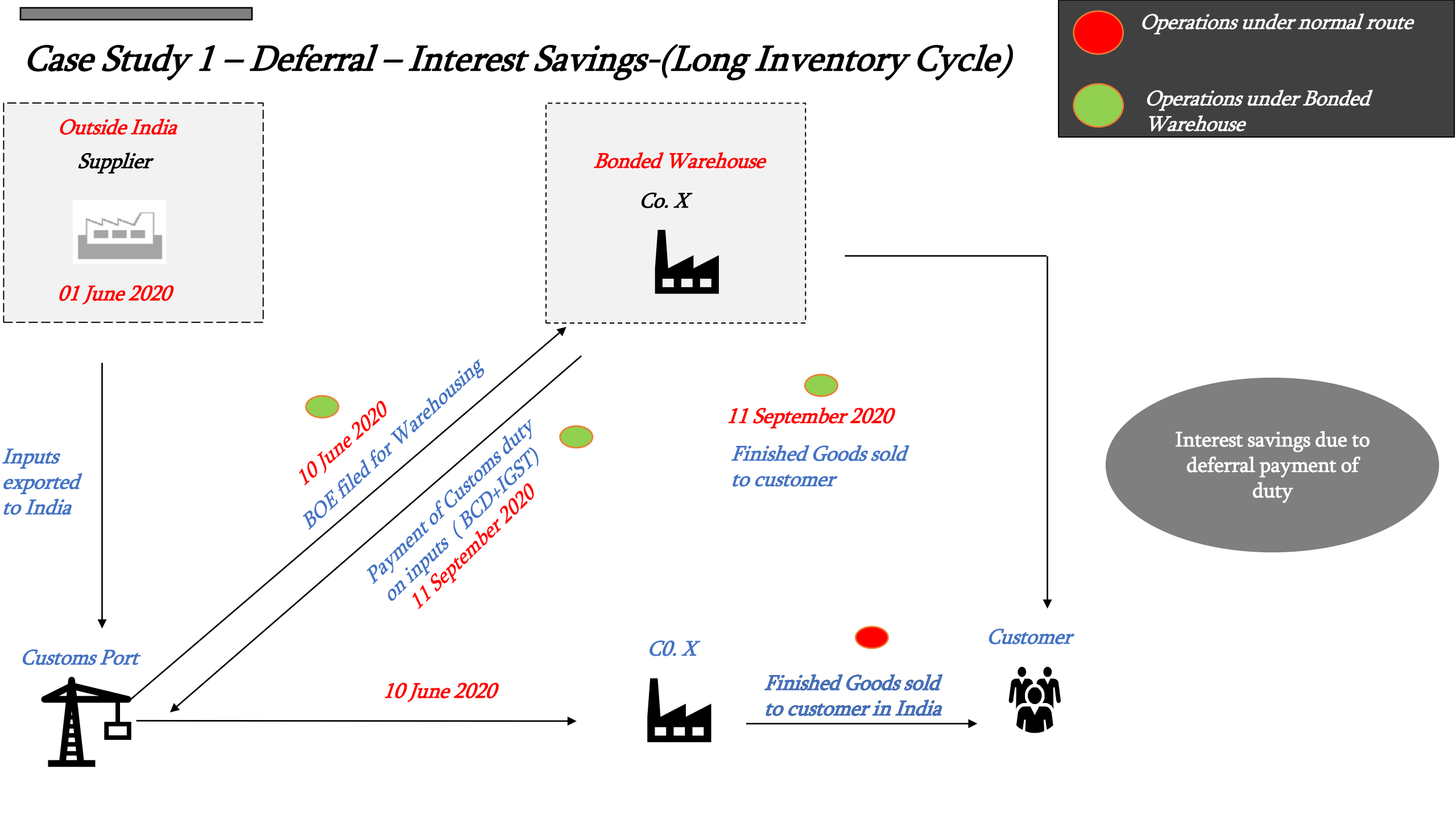


- Solvency Certificate from Bankers to the extent of **DUTY SAVED** value for importation of Goods to be provided at the time of application.
- All-Risk Insurance to be obtained for the same value of triple duty bond value executed in general bond
- Standard operating procedure in respect of movement of goods, processing, dispatch is required to be submitted at the time of application
- All other documents which are **MANDATORY** for a company to file the application online is required to be arranged,

Key points of Consideration

- 1) **COST BENEFIT ANALYSIS** with Existing Business Model functioning (i.e., Analyzing the Cost/Benefits under MOOWR with past and Budgeted projections)
- 2) **NON-AVAILABILITY** of depreciation on imported capital goods at the time of clearance from bonded warehouse at a later stage – conversion of EOUs and SEZs
- 3) Non-availability of **DRAWBACK** on exports from a bonded warehouse
- 4) **NON-AVAILABILITY** of benefit under the proposed **RODTEP** Scheme for goods exported from Bonded warehouse
- 5) Tracking of **IMPORT CONTENT** in goods that are processed/manufactured in a bonded warehouse for domestic clearance and duty payment.
- 6) **AUTOMATION** of the Inventory management system to capture all the details required to fill Annexure-B for monthly compliances ---- The Annexure B format that covers incoming and outgoing goods, along with details records of consumption, is tedious to maintain. The ERP system of the firm moving into bonded zones needs to be mapped to align with this format as any error here would lead to serious issues.
- 7) **ANNUAL RENEWAL** of Solvency certificate, Triple duty General bond, All-Risk Insurance, Various Undertakings/Declarations copy executed for quantum of duty saved by the unit
- 8) Requirement of record-keeping in **PHYSICAL** and **DIGIAL** format for the purpose of **AUDIT**
- 9) **Comparison** with availability of **existing exemptions** under Customs on clearance of imported raw material from Bonded warehouse.
- 10) **INFRASTRUCTURE** changes in the current factory to be in line with MOOWR regulations: For Ex: CCTV, Fire Audit, Access-Controls, Need for all Insurance risk to the extent of Duty saved.

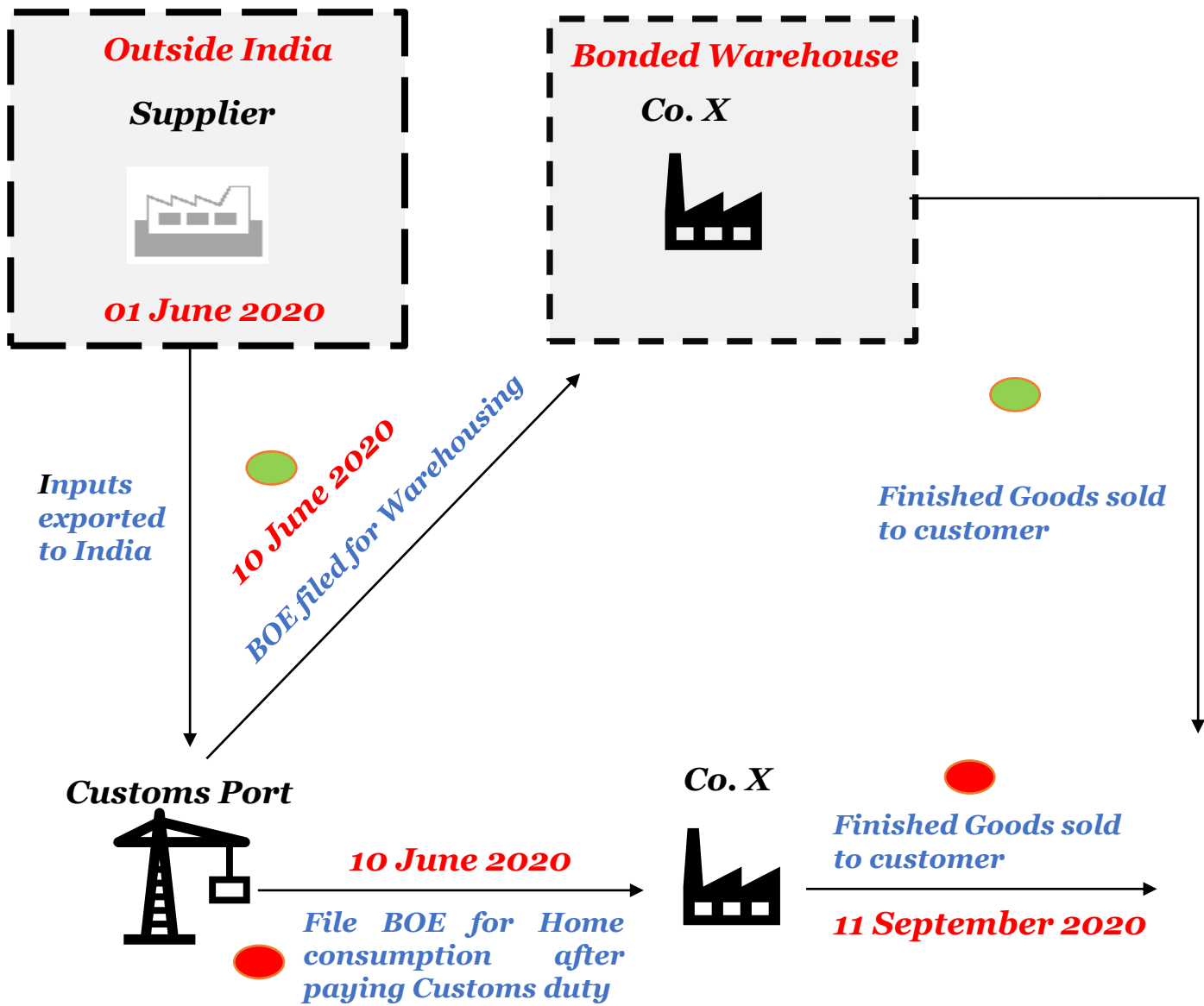
Case Study 1 – Deferral – Interest Savings-(Long Inventory Cycle)



Case Study 2– Cost Optimization (Low value-added Exports)

Operations under normal route

Operations under Bonded Warehouse

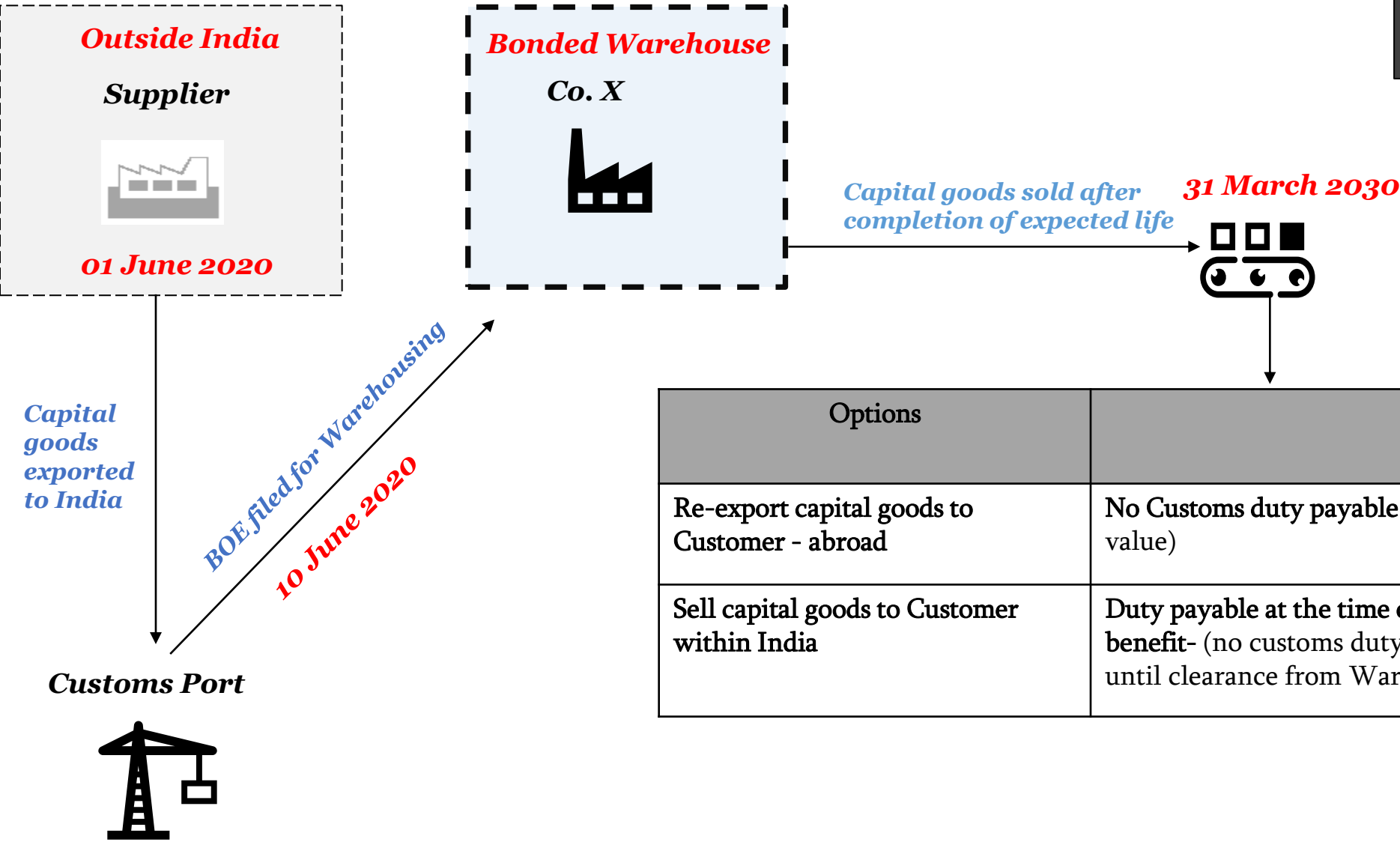


| Description | Reference | Normal Route | Bonded Warehouse |
|-----------------------------------|-------------------|--------------|------------------|
| Import Price | A | 100 | 100 |
| BCD @ 7.5% | B | 7.5 | - |
| SWS @ 10% on B | C | 0.75 | - |
| IGST @ 18% <i>Creditable</i> | D | 19.50 | |
| Export Price | E | 150 | 150 |
| Duty Drawback @ 1.8% on D | F | 2.7 | - |
| RODTEP @ 2% (E*2%) | G | 3 | - |
| Interest Savings @ 1% on B, C & D | H | - | 0.28 |
| Net Savings | I = (F+G+H)-(B+C) | (2.55) | 7.28 |

Case Study 3– Capital Investment -(For largely domestic sales)

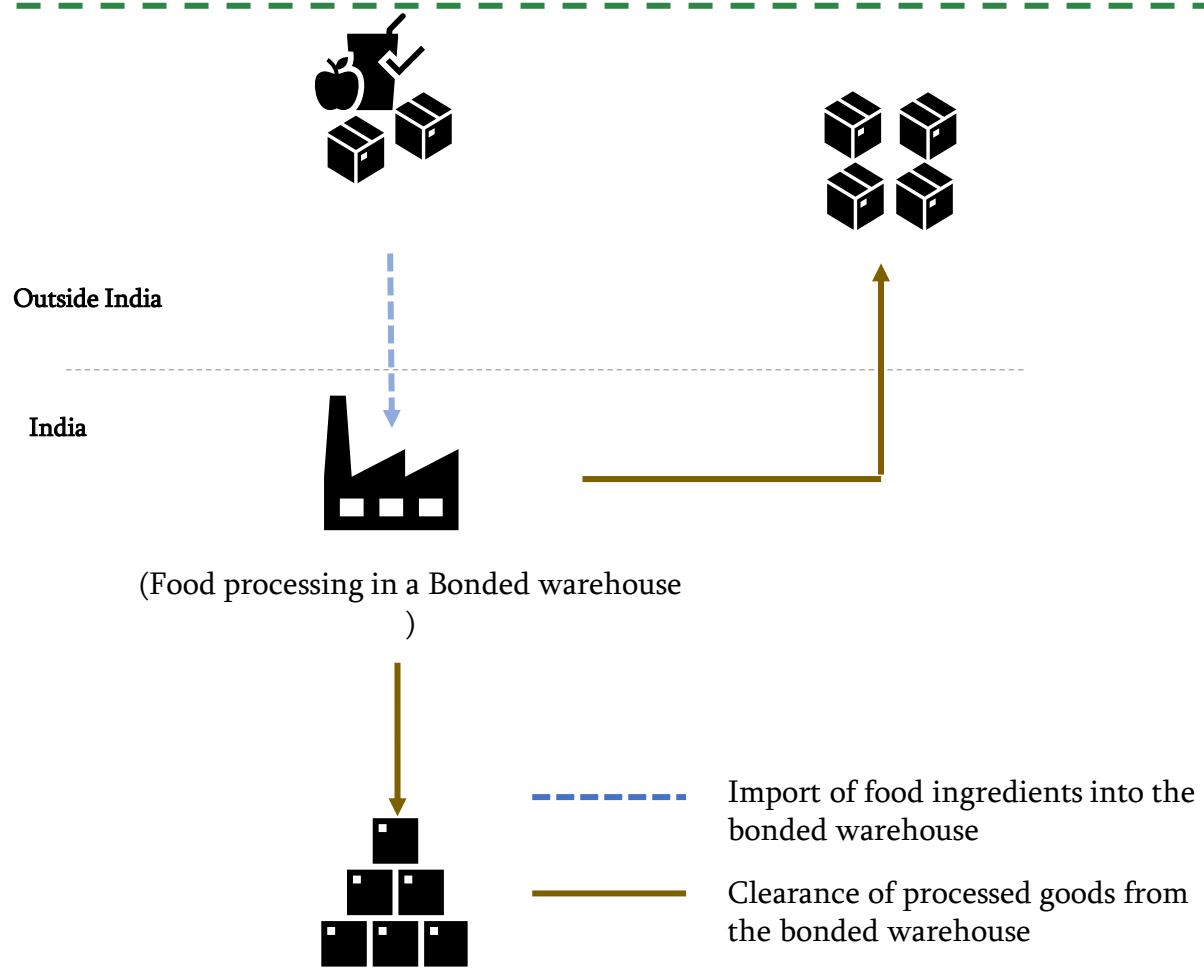
Operations under normal route

Operations under Bonded Warehouse



| Options | Impact |
|--|---|
| Re-export capital goods to Customer - abroad | No Customs duty payable on capital goods (on its original import value) |
| Sell capital goods to Customer within India | Duty payable at the time of sale of capital goods – Duty deferral benefit- (no customs duty payable for 10 years i.e., date of import until clearance from Warehouse) |

Use Case : Processing in a bonded Warehouse for ultimate EXPORTS



Food Processing will qualify as Manufacturing and Other operations even though the HSN of imported quantity and the Exported product remains the same

Facts

- A Company imports raw material such as such as roasted peanuts, emulsifier, castor sugar, skimmed milk powder for manufacturing high quality foods with optimized nutritional values
- No local procurement of raw material
- 99% of the processed food made in the bonded warehouse is **EXPORTED** while 1% is supplied in **DOMESTIC** India
- **Waste generated*** during the manufacturing process is destroyed

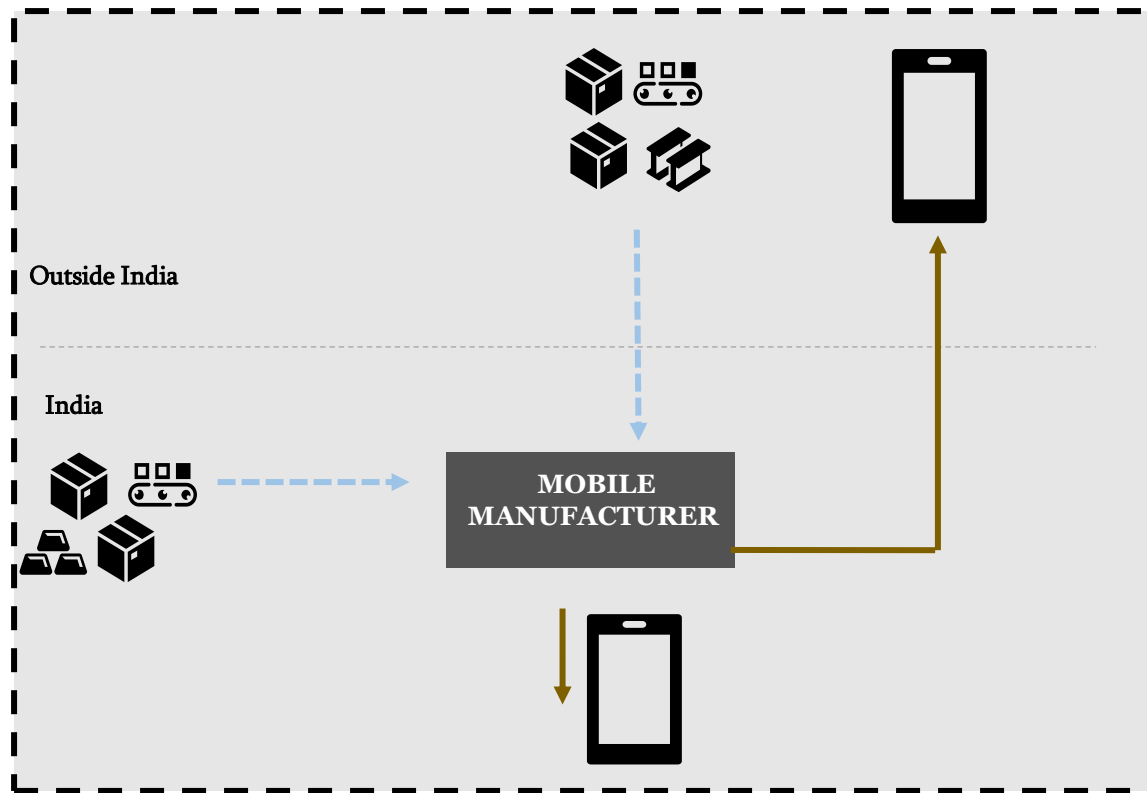
Points of consideration – CBW v. DTA

- **No duty payment on import** – since most of the processed goods will be exported out
- No benefit of **Drawback/RODTEP** in CBW : Quantum is less than duty saved.
- **Reduced cost** of manufacturing
- **Additional** working capital
- **Deferred customs duty** and IGST is paid only on 1% domestic sales

Entity may opt for CBW



Use Case: Manufacturer of Mobile –(1/2)



Procurement of parts, components, raw material, inputs and capital goods for use in manufacture of mobile phones

Clearance of mobile phones from bonded warehouse

Facts

- A mobile phone manufacturer in India imports 80% of raw material, components, etc. for making handsets while it locally purchases the balance 20% inputs
- Customs duty exemption popularly known as Imported Goods at Concessional rate of Duty; Rules 2017 (IGCR benefit) is available to manufacturers of mobile phone:
 - on import of specified raw material to manufacture parts, sub-parts, etc.
 - on import of specified capital goods used to manufacture mobile phones
- The manufacturer sells 75% of the handsets it produces in the domestic market and exports balance 25%

Use Case: Manufacturer of Mobile –(2/2)

| Components to manufacture one mobile handset | Sourcing | Duty paid/ IGCR exemption? | Qty |
|--|----------|----------------------------|-----|
| Inputs/ parts for manufacture of camera module | Imported | Exempt** | 1 |
| Parts for manufacture of connectors | Imported | Exempt** | 8 |
| PCBA | Imported | Duty paid | 10 |
| Charger/Adapter | Imported | Duty paid | 1 |
| Battery pack | Imported | Duty paid | 1 |
| Wired Headset | Imported | Duty paid | 1 |
| Microphone and Receiver | Local | Duty paid | 1 |
| USB Cable | Local | Duty paid | 2 |
| Inputs/parts for manufacture of Wired Headset | Imported | Exempt** | 20 |
| Keypad | Local | Duty paid | 1 |

**CBW requires that exempted goods or goods chargeable to nil rate of duty to be imported basis a bill of entry filed for home consumption

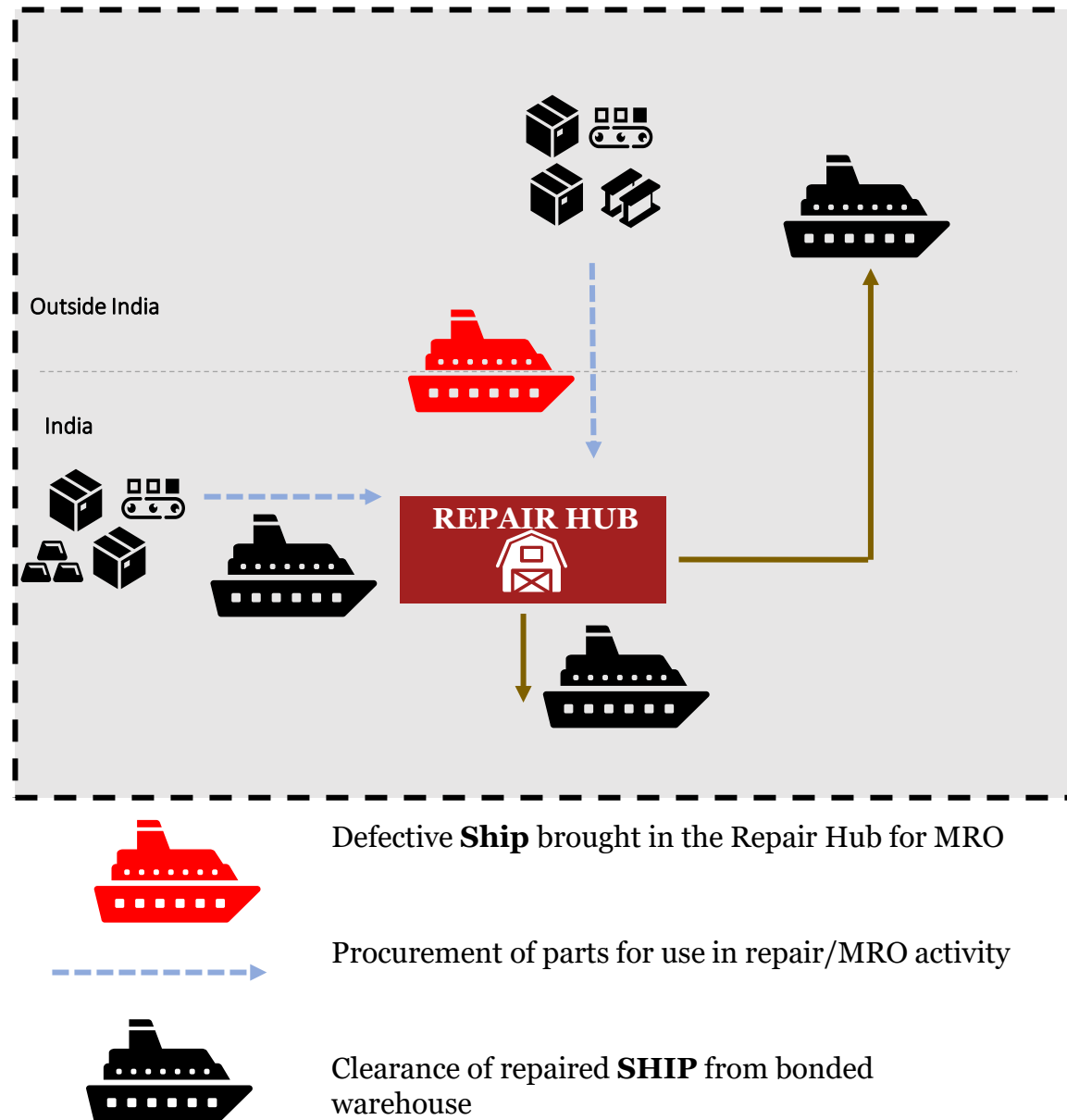
Points of consideration – CBW v. DTA

- IGCR benefit continues to be available under CBW –
 - Evaluate the inputs imported by the manufacturer that are duty paid v. exempt under IGCR
 - DEFERRED CUSTOMS duty to be paid on non-exempt components i.e., PCBA, Charger, battery pack and wired headset to the extent of domestic sales i.e., on 75% sales
 - CUSTOMS DUTY SAVINGS on PCBA, Charger, battery pack and wired headset to the extent of export sales i.e., on 25% sales
 - Duty drawback @ 4% on mobile will not be available
 - RODTEP rate of INR 24.5/ Unit for Smart Phones is NOT available under CBW
- Similar monthly consumption reports need to be filed under IGCR and CBW - no additional compliance/ infrastructure burden as such.

Quantum of benefit – duty saving on inputs wrt export sales vs. non-availability of duty drawback/RODTEP to determine the decision to operate from a CBW

Entity may avail IGCR exemption in a CBW 

Use Case: Repair hub in Bonded Warehouse vs DTA



Facts

- A repair hub undertakes MRO activity mainly for domestic operators i.e. 70% of its total business while 30% for international operators
- Almost 90% of parts needed for use in repair activity are imported while it locally procures balance 10%
- Just-in-time (JIT) inventory system is followed according to repair schedules/ need
- Customs duty exemption available for MRO activity


Points of consideration – CBW v. DTA

- No real benefit of deferred duty as JIT inventory management
- Import of parts – Customs exemption available in DTA and CBW bot
- Domestic procurement of parts for use in repair activity – same GST implication under CBW and DT
- Ex-bond BoE at the time of clearance of repaired aircraft may increase turnaround time. Hence, delay and revenue loss for the operator

Entity may continue MRO activities in the DTA



Use Case Summarized

| Business operations | Conversion into a Bonded warehouse | | Viability |
|--|---|--|---|
| Business Focus: Exports | Pros | Cons | |
| Export of goods manufactured/assembled using only imported components | - | - | ✓ |
| Export of goods and availment of schemes such as Advance Authorization, EPCG, drawback, etc. | - | - | ✓ |
| Manufacturing-related operations such as packaging, labelling, packing, etc. | - | - | ✓ |
| EOUs vs CBW | <ul style="list-style-type: none">No NFENo SION fixationMinimal approvals | <ul style="list-style-type: none">No depreciation on CG removal |  |
| SEZ vs CBW | <ul style="list-style-type: none">No NFEMinimal approvalsLocational flexibility | <ul style="list-style-type: none">Impact of income tax benefitNo depreciation on CG removal |  |
| Focus: Domestic sales | | | |
| Trading | - | - | ✗ |
| Companies maintaining JIT inventory or having a short production cycle | - | - | ✗ |
| Import of raw material for manufacturing and sale primarily in the domestic market | - | - |  |

Treatment of Waste generated during Manufacturing process

| SCENARIO | VALUE | Customs duty (BCD+IGST) | GST |
|--|--|-------------------------|-----|
| In case the finished/ processed goods are exported from a bonded warehouse | - | - | - |
| a) waste is destroyed | | | |
| b) waste is sold/cleared into the domestic market | <ul style="list-style-type: none">Customs Duty on imported raw material contained in the waste or refuseGST on the transaction value of waste or refuse | √ | √ |
| <u>In case the finished/processed goods are cleared in the Domestic market</u> | <ul style="list-style-type: none">Customs Duty on imported raw material contained in the waste or refuseGST on the transaction value of waste or refuse | √ | √ |
| Waste generated is destroyed/ sold/cleared into domestic market | | | |

Facts

- A Company imports 80% of its raw material and locally purchases balance 20% of inputs in a bonded warehouse
- 60% of the processed goods made in the bonded warehouse are exported while 40% are sold within India
- The waste generated during the entire manufacturing process is 2% of total input
- 200 kg of the waste generated in the bonded warehouse is sold in the domestic market @ INR 500/kg

Treatment of Waste

- Since the waste generated is sold in the domestic market, customs duty needs to be paid on a value base of 2% * 80% of Bill of Materia
- Identification of each of the imported item contained in the waste on an actual basis will be difficult –
 - Customs duty can be paid according to the waste norms and tracking the Into-Bond Bill of Entry on a FIFO basis
 - Customs duty rate – applicable as on the date of clearance of waste from the bonded warehouse
- GST to be paid on a value base of INR 1,00,000/-

Next Steps !

Phase I

Feasibility study

- Analyse quantum of credit liquidation possible under the scheme
- Evaluate the amount of cost and savings to the Company
- Pros and cons in operating under the scheme
- Analyse the cost of compliance and the readiness of the Company in operating under the scheme

Phase II

Discussion with Authorities

- Meeting with the Commissioner / Joint Commissioner
- Discussing on our approach/methodology in obtaining the licence
- Benefits/concessions available to Company (*case to case basis*)

Phase III

Implementation

- Collation of documents required for filing application (*i.e. Bill of Entry, Site plan etc.*)
- Preparation and filing of application with CBIC
- Inspection of premises by authorities
- Follow up with the CBIC on status of application filed and obtaining the final determination

Frequently Asked Questions

| Frequently asked questions | Particulars |
|---|--|
| Is Security Deposit Mandatory for Execution of Bond for Bonded Manufacturing Warehouse? | <ul style="list-style-type: none">• Circular no. 21/2016 of customs provides exemption from requirement of security amount under section 59(3) of the Customs act for goods used in the units operating under manufacture – in – bond scheme under section 65 of the act.• Reference can be made to Circular 21/2016 dated 31st May 2016. |
| Job-work is permitted under MOOWR Unit ? | Circular 48/2020- Customs dated 27.10.2020 has clarified that MOOWR unit can send the Goods for Job-work for further processing and the said unit can also perform Job-work operations provided the documents and conditions as prescribed in GST has been complied with |
| Can MOOWR Unit import Secondhand Capital Goods? | The Regulations and the Circular issued by CBIC till now has not placed any SPECIFIC RESTRICTION on importation of 2 nd Hand Capital Goods unlike EPCG, so the MOOWR unit can import 2 nd hand goods |
| Can we transfer Goods from MOOWR to another MOOWR? | <ul style="list-style-type: none">• Yes, Goods can be transferred from One MOOWR to another MOOWR subject to fulfillment of conditions and procedures specified in circular 34/2019.• GST is not required to be levied on the said transaction as the same Schedule-III of CGST Act,2017• It is called Bond to Bond transfer under customs for which the movement can happen without duties and the payment of duties will be transferred to the recipient MOOWR |

Thank You!

**Hope this presentation has
enriched your knowledge on
Manufacturing and Other
Operations in Warehouse
(MOOWR)**



For clarification of any issues connect @

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