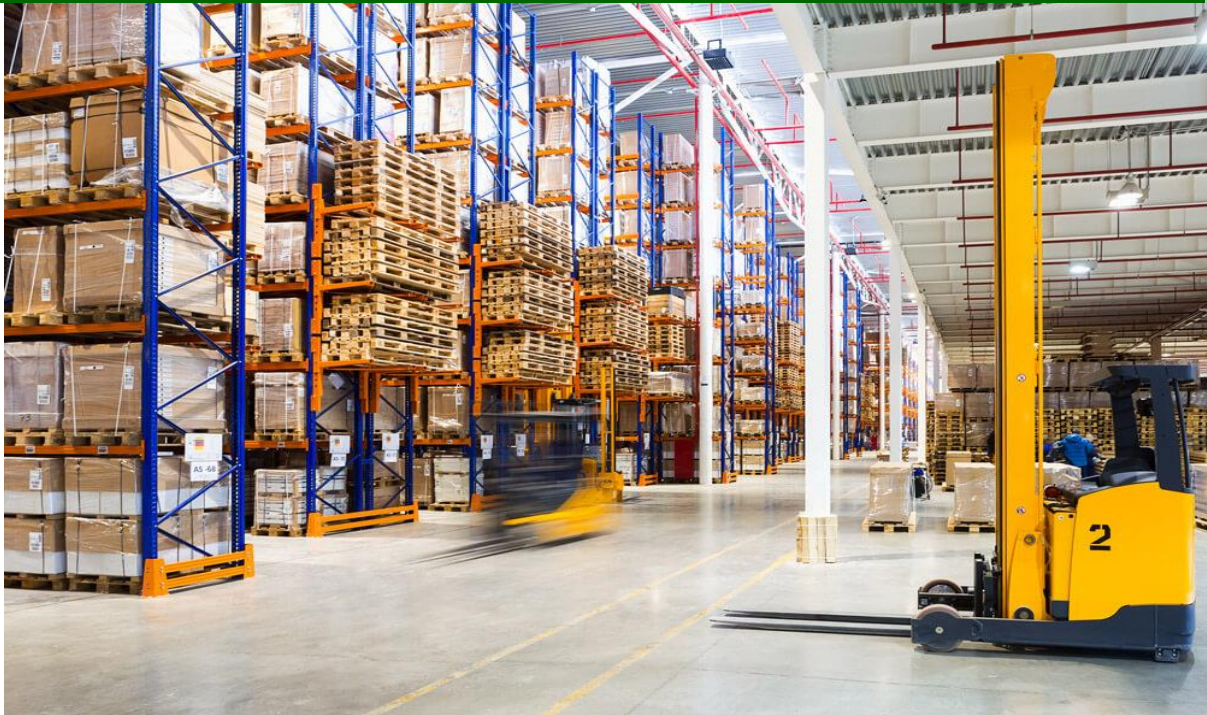


CUSTOMS BONDED WAREHOUSE



The Customs Bonded Warehousing scheme (“**the Scheme**”) is an initiative by the Central Board of Indirect Taxes and Customs (“**CBIC**”), to attract investments into India and strengthen the ‘Make in India’ program. The Scheme allows, for use in manufacturing, duty free import of inputs and capital goods into a customs bonded warehouse. Customs duty is deferred until the finished goods are sold in the domestic tariff area (“**DTA**”). If the finished goods are exported, there is no requirement to deposit any customs duty on the imported inputs. Capital goods can also be used for manufacturing purposes without payment of any customs duty, until clearance to a DTA.

The Scheme is operated under Section 58 read with Section 65 of the Customs Act, 1962 (“**the Act**”) which allows manufacturing and other operations in a Customs Bonded Warehouse. Details of the Scheme have been explained under the Manufacture and Other Operations in Warehouse (No. 2) Regulations, 2019.

Key benefits of the Scheme are:

- (i) Allows better cashflow management
- (ii) No condition of earing foreign exchange
- (iii) No export obligation, 100% manufactured goods can be sold in DTA
- (iv) Compliant with World Trade Organization norms on export incentive/ subsidy
- (v) No geographical restriction
- (vi) Existing units/ plants/ factories can participate, no requirement for greenfield projects or incremental investments
- (vii) Ease of compliance

This primer addresses certain frequently asked questions on the Scheme.

1. Who is eligible to avail benefits under the Scheme?

Any Indian citizen or an entity incorporated or registered in India, who has been granted a license under:

- (i) Section 58 of the Act, for conversion of a premise to a bonded warehouse; and
- (ii) Section 65 of the Act, which allows manufacturing and other operations to be undertaken in a bonded warehouse

A common application form has been prescribed for both the aforementioned license.

2. Will the Customs authorities have physical control of the premises licensed under Section 58 and 65 of the Act?

No. The unit will only be subject to risk-based audits. However, physical control of the unit will be with the unit owner.

3. Which type of businesses can be potential beneficiaries under the Scheme?

- Import intensive manufacturing
- Raw material holding period is high
- Fluctuating/ seasonal demand
- Others





4. Is this a duty exemption scheme or a duty deferment scheme?

This is a duty deferment scheme, applicable as under:

- For goods sold in the DTA: customs duty is payable at the time of clearance for home consumption, on the value of imported inputs embedded in the finished goods
- For goods exported out of India: no customs duty is payable on the value of imported inputs embedded in the exported finished goods
- For capital goods: customs duty is payable only if such capital goods are cleared for home consumption. Else, the capital goods can be used for manufacturing purposes (both export and domestic) without payment of customs duty

5. Is exporting goods a necessary condition for the Scheme?

No. The Scheme does not require the applicant to export goods outside of India. The Scheme is applicable even if 100% of the goods manufactured in the bonded warehouse are sold in India.

6. Can an existing manufacturing unit apply under the Scheme and start availing the benefits?

Yes. Existing units can obtain the necessary licenses and account/ record the capital goods/ inputs as on the date of receiving the approval. Applicable benefits can be availed for any subsequent imports.

7. Is a completely enclosed structure necessary while applying for the necessary licenses?

No. The Scheme does not mandate that a structure should be completely build or enclosed. However, it is necessary that there should be suitable systems, facilities and personnel to safeguard/ secure storage of goods imported duty free and to be able to undertake the necessary

compliances/ reporting. The Customs Authorities will consider these aspects (amongst others) while granting the license.

8. Is there a requirement to renew the license under Section 58 or Section 65 of the Act?

No. The license under Section 58 and permission under Section 65 is valid unless it is cancelled or surrendered.

9. Can capital goods be imported without payment of duty?

Yes. A unit licensed under Sections 58 and 65 of the Act can import capital goods and warehouse them without payment of duty. All the duties of customs viz. Basic Customs Duty, Integrated Goods and Services Tax, Social Welfare Surcharge, Compensation Cess, etc are deferred. Such import duties are deferred until the capital goods are cleared from the bonded warehouse for home consumption. The capital goods can also be exported after use, without payment of duty.



10. When is customs duty payable on goods manufactured in the bonded premises using the imported inputs (on which duty has been deferred) and sold into the domestic tariff area?

Customs duty is payable on the value of inputs embedded in the finished goods which are sold in the domestic tariff area. The duty is payable when the finished goods are sold and removed from the bonded premises.

11. Is the value of imported capital goods (on which duty has been deferred) included while computing customs duty on finished goods sold in the DTA?

No. Customs duty is payable only on the value of imported inputs (on which duty has been deferred) embedded in the finished goods. Value of imported capital goods is not considered.

12. When is customs duty payable on imported capital goods (on which duty has been deferred)?

Customs duty is payable on the capital goods imported into the bonded warehouse, only if such capital goods are cleared into the DTA for home consumption. However, if the capital goods are re-exported after being used for manufacturing purposes, no customs duty is payable.

13. Is there any restriction for storing the importing goods (including capital goods) in a bonded warehouse without payment of any import duties?

No. The Scheme does not prescribe any time restrictions for storing the goods in a bonded warehouse. The payment is triggered only if the goods are either cleared as such, or in the form of finished goods from the bonded warehouse.

14. Is interest payable on the customs duty deferred?

No. There is no requirement to compute and deposit interest on the customs duty deferred. Only the principal amount is required to be deposited and that too limited to the value of goods cleared or embedded in the finished goods at the time of clearance into the DTA.



15. Is it necessary to appoint a warehouse keeper for the premise licensed as a customs bonded warehouse?

Yes. A warehouse keeper has to be appointed, for a premise to be licensed as a bonded warehouse under Section 58 of the Act. The warehouse keeper is expected to discharge duties and responsibilities, maintain accounts and also sign documents, on behalf of the applicant.

16. Is inspection by the customs officer required for removal of goods from the bonded warehouse?

No. There will be inspection of goods by customs authorities at the time of removal, only based on the risk management systems and not as a matter of routine practice. Approval of the customs officer is also not required for clearance of the goods from the warehouse.

**17. Are goods permitted to be transferred from one bonded warehouse to another without payment of import duties?**

Yes. The warehoused goods on which duty has been deferred, can be transferred inter-se bonded warehouse under Section 58 read with Section 65 of the Act. Prescribed records need to be maintained and necessary compliances should be undertaken.

18. What is the procedure for surrender of license?

Surrender of license is governed by the Private Warehouse Licensing Regulations, 2016. A licensee may surrender the license granted by making a request in writing to the customs authorities. On receipt of such request, the license will be cancelled subject to payment of all dues and clearance of remaining goods in such warehouse.

19. Can a Customs broker be appointed as a warehouse keeper?

Yes. A person who has passed the examination referred to in Regulation 6 or Regulation 13 of the Customs Broker Regulations, 2018 may be appointed as a warehouse keeper. There is also no bar in appointing any person who has sufficient experience in warehousing operations and customs procedures.

20. On surrender of license, is duty required to be paid on the inventory (on which duty was deferred) lying in the bonded premises?

Yes. Applicable duty on the inventory is required to be deposited before surrendering the license. In case, the bonded goods are meant to be exported, the same needs to be done before surrendering the license, else applicable duty needs to be deposited.

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