

Tax Services
Worldtrade Management Services

Classification of Enterprises



Since 1999 the General Administration of Customs (GAC) has established a mechanism for enterprise classification, including a special rule for the convenient customs clearance of large high-tech enterprises. In 2008, the GAC took steps to improve the efficiency of administration of enterprise classification, and strengthen management of customs clearance.

This article summarises the new rule and highlights the strategic and operational circumstances in which enterprise classification is most important to companies.



What are the new rules and main changes?

Two new rules were implemented effective 1 April 2008:

1. <Administration Measure on Classification of Enterprises> (“Classification Measures”) per GAC Notice [2008] No.70; and
2. <Administration Measure List on Classification of Enterprises > (“Measures List”) per SHUJIFA [2008] NO.92.

The main changes in the new Classification Measures are:

- Formalisation of the new top designation - Category AA (this has been operating on a “pilot” or “local” basis , so the new rule confirms 5 categories of enterprise classification i.e. AA, A, B, C and D (please refer to the details discussed below)
- Introduction of the concept of “annual verification audit” for AA Category enterprises in order for them to maintain their status
- Loosening of the provisions for Category C and Category D
- Relaxing the timeline for Category D to be upgraded to Category C
- Removing the requirement to treat a new entity as the same grade if it is affiliated with an existing Category D entity
- Adding a new clause to specify the scenarios of merger and acquisition

How should the enterprise classification system work?

The objectives of the new Measures List are to:

- Ensure smooth implementation of the Classification Measures
- Ensure unified enforcement nationwide
- Strengthen relevant analysis to prevent and control customs management risks
- Strictly control the conditions for Category AA

The Measures List is supported by 3 Appendices: Administration Measure List on Classification of Enterprises; Responsibility Guarantee on Applying for Guaranteed Customs Release and Clearance Procedures; and Permission Form of Application of Guaranteed Customs Release and Clearance Procedures

A simplified table highlighting how the new approach should work is provided below:

Category	Clearance Procedures
AA	Eligible for convenient clearance procedures of a Category A enterprise, plus expedited procedures: <ul style="list-style-type: none"> • Proceed straight from electronic-document checks to clearance of goods without spot checks. • Designated special Customs staff to handle problems in the Customs clearance process.
A	Eligible for convenient clearance procedures: <ul style="list-style-type: none"> • Designate official to implement prior investigation on the site of manufacturing or loading. • Enjoy priority of declaration, investigation, and clearance. • Enjoy priority of declaration procedure in non-working days and holidays. • Deposit empty-transfer or do not adopt deposit transfer policy.
B	Subject to normal clearance procedures.
C	Subject to stricter supervision during the clearance process.
D	Same as C, plus opening each container where necessary.

What else makes enterprise classification so important?

The above table only focuses on clearance procedures. In practice, enterprise classification can impact a company in many ways:

Company Type	Enterprise classification implications
Manufacturing	<ul style="list-style-type: none">• Qualification for Processing Trade (bonded manufacturing)• Coverage under the Prohibition List and Restricted List• Type and number of Customs Handbooks to be used• Type of bonded operating model (i.e. fully or semi bonded)• Deposit requirements for bonded goods• Frequency of Customs field visit• Requirements for inventory, ERP and finished product segregation
Trading	<ul style="list-style-type: none">• Qualification for paperless customs clearance• Valuation screening• Target of customs audit• Entry port restriction

As can be seen from above, enterprise classification carries far broader implications than just clearance procedures, particularly for manufacturing enterprises. The extent to which this is relevant will depend on factors such as the industry sector, nature and location of the company etc. Securing the highest possible category is imperative for companies as is avoiding classification downgrade as a result of customs audit or investigation.



What are the criteria for each category and the application procedure?

Each category has been set different criteria - Category “AA” and “A” are summarised as follows:

Category	Criteria
AA	<ul style="list-style-type: none"> • Category A for more than one year; • Import and export value of last year exceeds USD 30,000,000 (US \$10,000,000 for central and west region); • Undergone special Customs verifications and checks for operational management and trade security; • Submit an annual <Management Status Report> and audit report of last year issued by an accounting firm; • Submit <Import and Export Business Transaction Table> every six months.
A	<ul style="list-style-type: none"> • Category B for more than one year; • A continuous record for one year of not being involved in smuggling or unlawful behavior; • No administrative penalty for importing and exporting goods that violated Intellectual Property Rights; or arrears in duty, fees or penalty; • Import and export value of last year exceeds USD 500,000; • Customs declaration error rate of last year is below 3%; • Sound accounting system, correct and reliable business records; • Initiative with customs administration, finishes customs procedures on time, provide accurate, complete and valid receipts and documentation to Customs; • Submit an annual <Management Status Report>; • Finish replacement procedure of < Registration Certificate of Customs Declaration of Consignee/ Consigner of Import/Export Goods> and related changes of procedures in according to the relevant rules; • No unhealthy record in administrative departments of business, the People’s Bank of China, industry and commerce, taxation, quality inspection, foreign exchange and supervision, etc.

The following application procedure should apply:

1. Applicant completes the appropriate application form and submits to the local in-charge Customs along with the requested documents
2. Customs verify all the documents and confirm whether the documents are complete
3. Customs immediately create an <Acceptance Decision of Enterprise Category Administration> and submit this to regional Customs to confirm or reject the application, and inform applicant to add requested documents

Declaration Agencies

Declaration agencies are also included in the Classification Measures. A separate set of criteria apply for declaration agencies, although some of the requirements are similar to those of a consignee or consignor (see above). Clearly, when soliciting quotations from a declaration agency, an enterprise should also enquire about the current and historical enterprise classification status of the agency.

Current status and outlook

Prior to the new rule taking effect, it was sometimes difficult to precisely quantify the pro's and con's of the various categories. Under the old rule, some companies could enjoy the benefits of a Category "A" even though they were ranked as "B". Qualification for Category "A" or "AA" was dependent on local relationships in addition to the other criterion.

The new rule should go some way to tightening up the enterprise classification system with greater distinction between the respective categories and more consistent enforcement. The broader implications that enterprise classification carries is already resulting in companies placing more emphasis on this area. For strategic as well as operational reasons, securing the highest possible category is imperative for companies as is avoiding classification downgrade as a result of customs audit or investigation.

The team at PricewaterhouseCoopers assists companies to:

- Obtain and retain the preferred enterprise classification.
- Discuss with Customs any downgrading issues that may arise during the course of a customs audit or investigation.
- Upgrade the category classification of companies that have been previously downgraded.

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