

# Customs Compliance Management

## The financial crisis will not slow Customs' revenue collection efforts

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Contrary to popular belief, the release and clearance of goods by the customs authority does not mean that the correct amount of duty has been paid and that compliance has been achieved. The customs authority is deliberately making fewer checks at the time of importation in order to facilitate legitimate trade. Instead, they are undertaking post-importation audits and investigations in order to enforce compliance and ensure that the correct amount of duty is collected.

The customs authority, as a result of conducting the post-importation audit, often assesses the importer additional customs duties and financial penalties for any non-compliance identified. Other sanctions may also be imposed such as a downgrade in Enterprise Classification, which means delays in clearance times due to more frequent and intensive documentary and goods inspections.

Enterprises can take measures to mitigate the likelihood of this scenario arising by implementing a compliance management program and establishing procedures for managing and resolving an audit by the authorities.

### Customs' Revenue Target in 2009

The General Administration of Customs ("GAC") recently announced that revenue collections in 2008 were 20% higher than 2007. Notwithstanding the economic downturn and a reduction in the volume of imports and exports, we understand Customs revenue target for 2009 is adjusted upward compared to 2008. As such we anticipate significant revenue pressure for Customs this year and they may be forced to increase the revenue collection through discretionary effort such as post importation audits on past activities.

Goods imported in 2009 will be subject to an average customs duty of 9.8%, valued added tax (VAT) of 17%, and consumption tax, in certain situations. Customs revenue collections mainly come from goods imported under the mode of General Trade. This means that the declared value, classification, and origin of goods will be closely scrutinised, as these three areas essentially determine the amount of duties that are assessed and therefore revenues collected. The bonded goods under processing trade will also be strictly enforced, along with imports under duty reduction and exemption programs.

As expected, post-importation audits in major industries, commodities and key import/export enterprises will be increased. Nationwide audits and investigations will be initiated as appropriate for critical industries and sensitive commodities.

The above developments show that the financial crisis will not slow Custom's revenue collection efforts.

### Compliance Management Program

With the fast pace of regulatory change and rapid growth in import and export activity, the significance of customs compliance has increased. This is especially so in the areas of Processing Trade (handbook management and bonded transfers) and General Trade (valuation, classification and origin).

To aid in successfully pass a post-importation audit, enterprises should implement a compliance management program. This program will enable enterprises to:

- Identify financial exposures and ensure that corrective action is taken
- Identify and implement cost saving opportunities
- Ensure "best-practice" policies, procedures and controls are adopted

Implementation of this program will mitigate the risk of financial exposure resulting from a post-importation audit and may also result in cost savings and performance improvement in other aspects of the supply-chain. The benefits gained from a compliance management program far outweigh the costs associated with 'fire fighting' a lengthy audit or investigation.

### Getting Started

A compliance management program should commence with a self-assessment review (health-check) that should be completed in advance of audit by the authorities. A proven assessment methodology should be followed to quickly and efficiently review the key import/export areas and related documentation. This process is summarised as follows:

- Prepare a pre-questionnaire list and a document request list for the selected entity
- Complete and on-site assessment of the 'red-flag' areas by way of transaction sampling, cycle count review, customs broker review, process mapping and employee interviews
- Prepare a report of findings and recommendations, including a Compliance Improvement Plan (CIP), and any cost saving or avoidance suggestions
- Implement the CIP and cost saving or cost avoidance suggestions
- Implementation activities may include, establishing new compliance metrics, preparing best-practice procedure manuals, training of employees, voluntary disclosure of historical exposures and securing advance rulings from the authorities.

### Managing and resolving a Customs audit or investigation

Importer's that have adopted best-in-class compliance programs are still selected for audit or investigation. Policies and procedures are required so as to ensure that the audit or investigation is resolved promptly without undue financial or reputation exposure.

These should include, but are not limited to the following:

- Establishing a point of contact and ensuring relationship management
- Assembling a team to manage the audit/investigation
- Establishing how Customs intend to conduct the audit/investigation
- Updating stakeholders of progress and outcomes of key meetings
- Developing a strategy to manage the audit/investigation
- Keeping all the files that have been submitted to or collected by Customs
- Ensuring a formal closure of the audit/investigation

Enterprises are typically under significant time pressure during an audit/investigation, so these policies and procedures should be in place prior to an audit/investigation commencing.

### Summary

The financial crisis will not slow Customs' revenue collection efforts. Customs revenue collection target in 2009 is the highest in history.

As most companies wish to survive the financial crisis and avoid unwanted surprises, it is prudent to implement a compliance management program by undertaking a compliance self-assessment. The compliance self-assessment may also identify cost saving and performance improvement opportunities that could assist in riding out the financial crisis.

It is also prudent to implement in advance procedures and policies for managing and resolving a customs audit/investigation.

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# Contacts

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**PricewaterhouseCoopers' Customs & International Trade Practice**

Customs and international trade in China is complex, but with the right approach is manageable. A planned and structured approach results in cost savings, higher levels of compliance and fewer unwanted surprises during an audit. PricewaterhouseCoopers' specialists within our Greater China customs and international trade practice provide a wide range of advice and services related to creating value, ensuring compliance, and managing risk in relation to the movement of goods into and out of China.

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