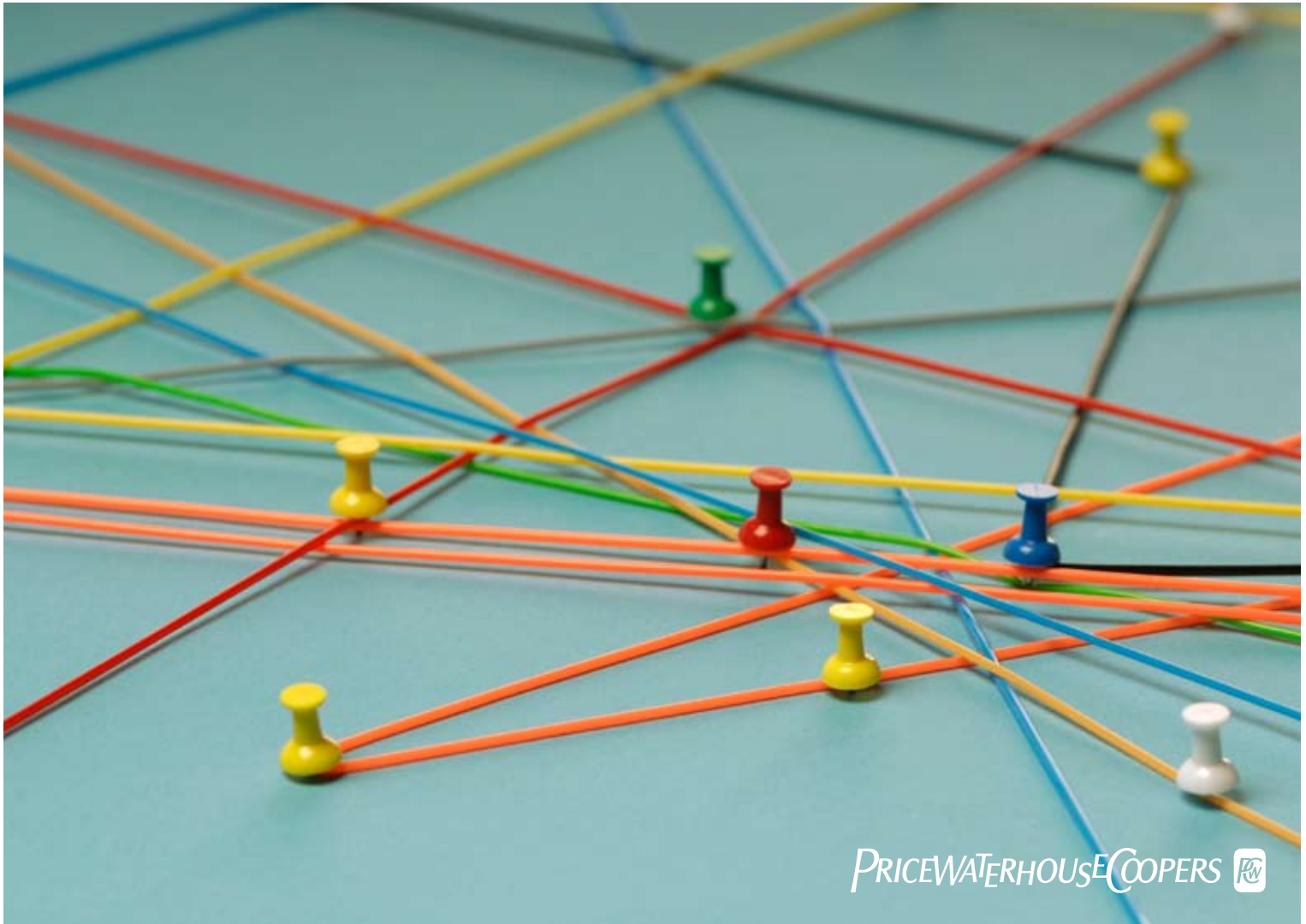


Tariff Classification



Tariff classification is an age-old principle and requirement that features on every declaration. Imports/exporters are required to make a complete and accurate declaration, including the Harmonised System (HS) code. The Customs authority is actively reviewing importers/exporters – either at the time of goods declaration or post-importation during audit – to ensure that the correct HS code is declared. The implications for non-compliance can be very costly.

This document sets out information about the tariff classification system in China and approaches that can be taken in order to ensure tariff classification compliance.

Importance of tariff classification

Tariff classification is tied to all aspects of import and export transactions. It determines, identifies or impacts:

- duty rates
- origin (change in tariff classification criterion)
- general import/export prohibitions & quantitative restrictions
- regulatory and licensing requirements (e.g. China Compulsory Certification (CCC))
- Commodity Inspection (including fumigation)
- antidumping, countervailing & safeguard measures
- basis of customs risk management and valuation audit
- trade statistics

In China, tariff classification takes on additional importance for Processing Trade in terms of the Prohibition List and Restricted List, duty-exempt capital equipment, export Value Added Tax (VAT) refund rates, and export duties.

Implications for non-compliance

The potential implications to an importer/exporter for non-compliance include:

- Seizure of goods
- Interruption to the supply chain and consequent production delays
- Additional assessment duty, interest and financial penalty (retrospective period is 3 years)
- Clearance under cash deposit
- Negative publicity
- Damage to company reputation

The HS in China

HS 2007 was effective 1 January 2007 as per the China Import and Export Tariff Book. The Tariff Book is revised and issued annually and now consists mainly of ad valorem tariff. Approximately 35 types of supervision certificates are prescribed. A bi-lingual version of the Tariff Book is available (but the Chinese version is official). China adopts a 10-digit numbering scheme: the first 6 digits follow the HS, the 7th & 8th digits are for tariff and other purposes and the 9th & 10th digits are for non-tariff (statistical and regulatory) purposes. The Explanatory Notes are part of the HS and have been well translated and officially adopted as criteria for interpretation of HS.

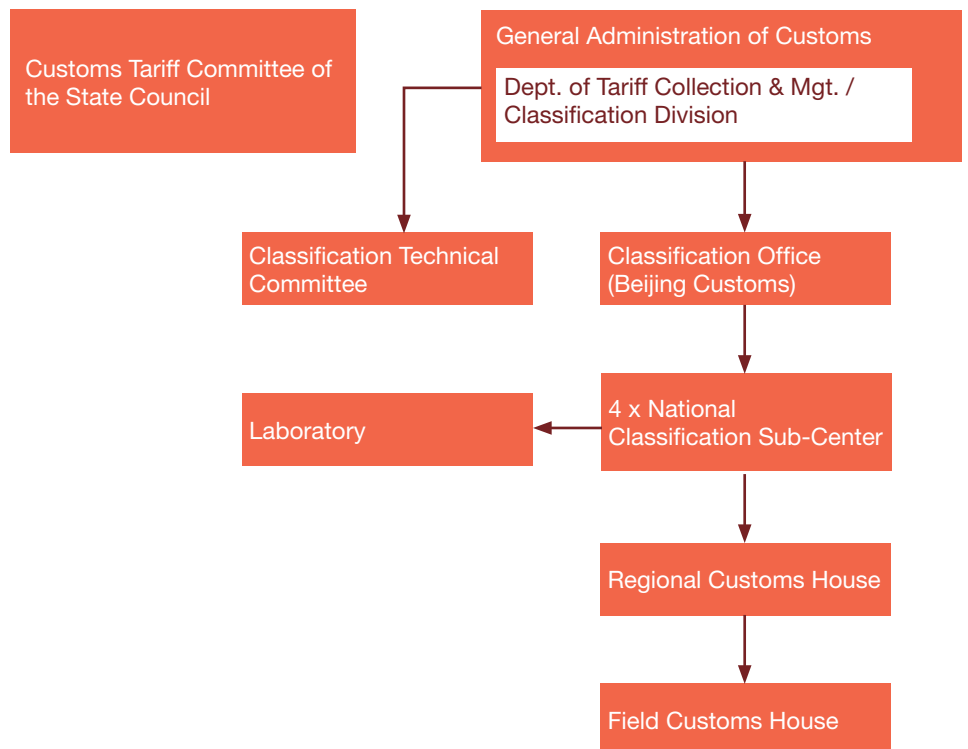
Who decides the HS Code?

The importer/exporter should self-assess and declare the correct HS Code. When Customs are completing checks, the HS Code is in the first instance decided by the field customs house at the port of entry or exit. If disputed, the tariff classification division at the regional customs house may be consulted. If the parties still have disputes, the issue may be escalated to a so-called tariff classification 'centre of excellence'.

The 'centres of excellence' are organised as follows

- Guangzhou: Chapters 1-71 (exclusive of Chapters 25, 26, 44-49)
- Shanghai: Chapters 84-97
- Dalian: Chapters 25, 26, 44-46
- Tianjin: Chapters 47-49, 72-83

If the 'centre of excellence' cannot resolve the issue, the case may be passed to the General Administration of Customs (GAC). The chart below illustrates the key departments:



It is prudent to review the tariff classifications declared for the same products that enter or exit China through different gateway ports. Relationships with Customs still make a difference.

Can a global classification system be used in China?

This question is frequently asked but it can only be answered case-by-case. The general 'pros' and 'cons' of this approach are summarised as follows:

Pros	Cons
<ul style="list-style-type: none">• Strengthen internal controls• Reduce errors by Customs Brokers or staff who lacked in-depth product knowledge• Classification accepted by other countries may be used as support in the event of dispute with Customs• Consistency provides certainty	<ul style="list-style-type: none">• Overcoming resistance to foreign practice• Overcoming resistance to change• China Customs can still disagree on the classification• May not result in a most duty-advantaged position in the China tariff

Common pitfalls in tariff classification in China also include discrepancies among supplier documents, import licenses, and product meaning distortions after product description translation from English to Chinese. One should not assume that global tariff classifications will always work in China.

Can tariff classification rulings be obtained?

Three scenarios exist for classification decisions:

- Prior to customs clearance: An importer/exporter may request of a pre-classification decision prior to customs clearance. A decision should be obtained from the Customs authority 45 days before the goods are to be declared.
- During customs clearance: An importer/exporter may request a classification decision to settle disputes when the goods have been declared but not yet released by the Customs authority.
- After customs clearance: The Customs authority routinely undertakes post-importation audits focusing on tariff classification. The standard statute of limitation is 3 years from the date of importation. An importer/exporter may request a classification decision during an audit.

Establishing the HS Code

PricewaterhouseCoopers using a best-in-class methodology can perform an assessment on the classification of your products. We perform assessments on the tariff classification of products in question through searching the following references:

- Section Notes, Chapter Notes, Heading Description and General Rules for the Interpretation (GRI) of the China Import and Export Tariff Book
- Explanatory Notes of the Harmonized System
- Classification rulings issued by China Customs
- Other relevant materials

PricewaterhouseCoopers has the experts from various industries such as chemical, pharmaceutical, mechanical and electrical, information technology, and commodities, which have the technical-specific knowledge that is necessary for product classification.

PricewaterhouseCoopers will develop a written classification analysis that is documented in the form of a Classification Information Worksheet. The Classification Information Worksheet helps to ascertain and support the tariff classification of the products from a technical perspective. The information gathered and conclusions reached during our assessment can also serve as supporting documents to respond to questions raised by the Customs authority.

PricewaterhouseCoopers can also assist in applying for a classification decision for products that are particularly sensitive. Our service can include meeting with the Customs authority to clarify any technical points about the product definition or the HS Code determination.

The benefits of adopting this approach are increased levels of compliance, increased certainty about clearance times and cost savings if the existing HS Code is leading to higher duty rates or unnecessary non-tariff barriers.

Summary

Tariff classification is tied to all aspects of import and export transactions and the potential implications to an importer/exporter for non-compliance can be severe. Whilst the HS has been fully implemented in China, it should not be assumed that global classifications will always work due to translation and interpretation issues, amongst others. When resolving disputes with the Customs authority, the process for examining and determining the tariff classification can be complex and time consuming.

The cost of resolving disputes is typically higher than the cost of ensuring compliance upfront. Fortunately, tariff classification decisions can be obtained from the Customs authority in advance of importation/exportation.

PricewaterhouseCoopers has a best-in-class methodology that importers/exporters can use to determine the tariff classification and rationale therein. PricewaterhouseCoopers can also assist importers/exporters to obtain classification decisions from the Customs authority.

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PricewaterhouseCoopers' Customs & International Trade Practice

Customs and international trade in China is complex. However, a planned and structured approach with the right resources assigned 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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