Presentation at

Southern India Regional Council (SIRC)

All about Bonded Manufacturing Warehouse Scheme

- By CA Sonal Jain

Presentation Schema

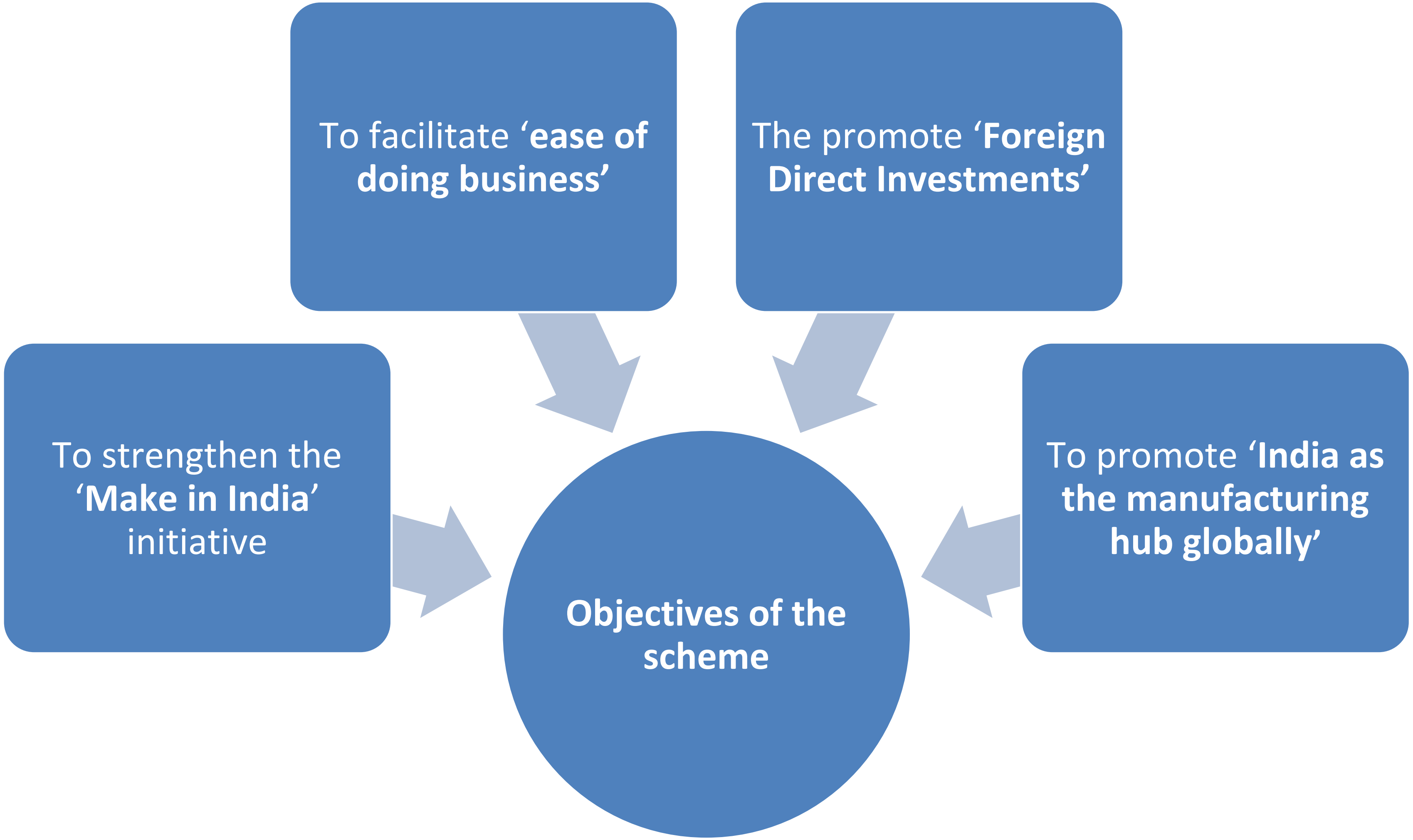
Introduction to the Scheme → Understanding different form of Warehousing → Who can apply for the Scheme?

→ Why Bonded Manufacturing Warehouse? → Advantages of the Scheme → How to apply for Bonded Manufacturing Warehouse

→ Manufacture and Other Operations in Warehouse (No.2) Regulations, 2019 (Procedure and Compliance) → Disadvantages and Comparisons with other Schemes → Way Forward

Introduction to the Scheme

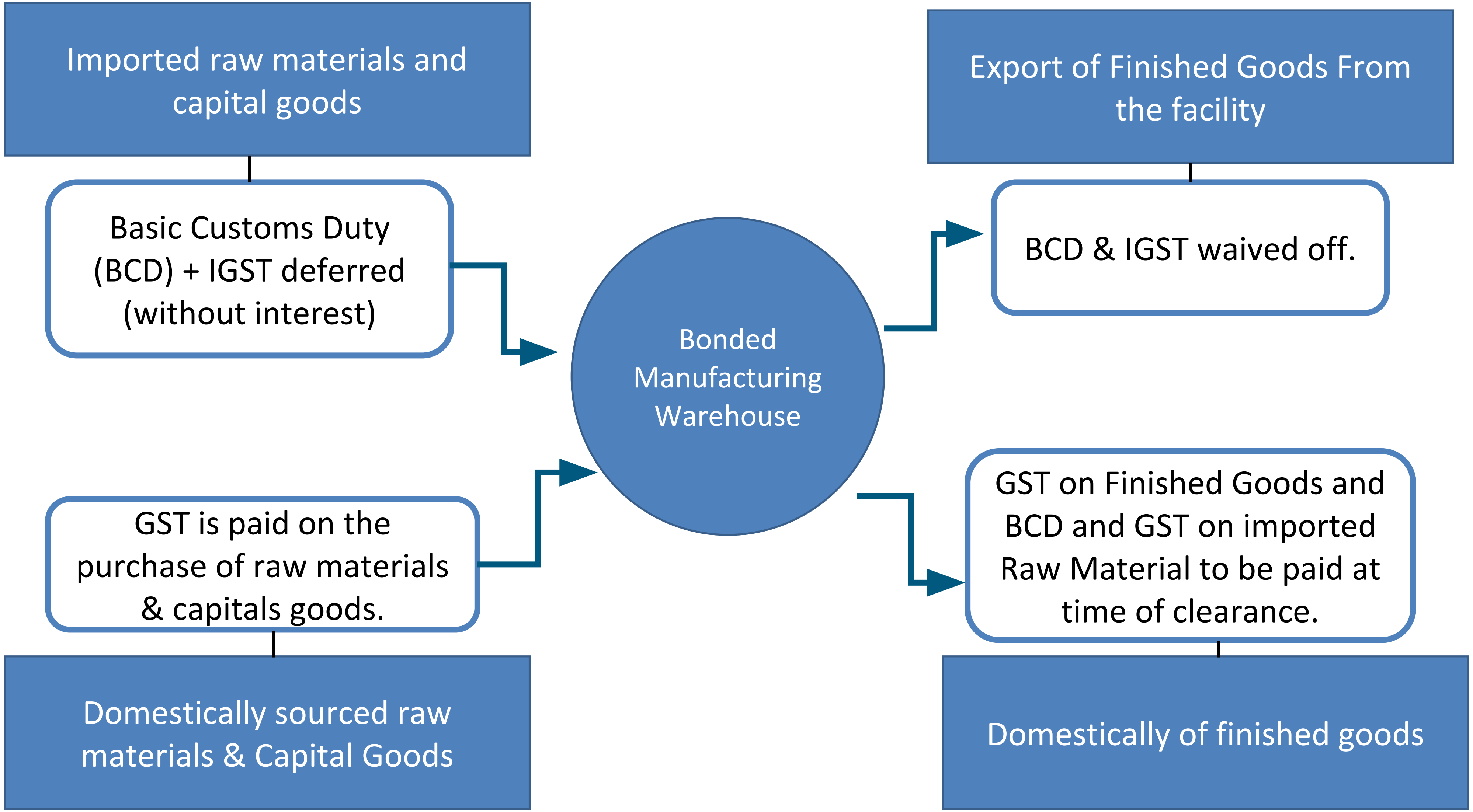
Introduction to the scheme



Other Important factors promoting Scheme:

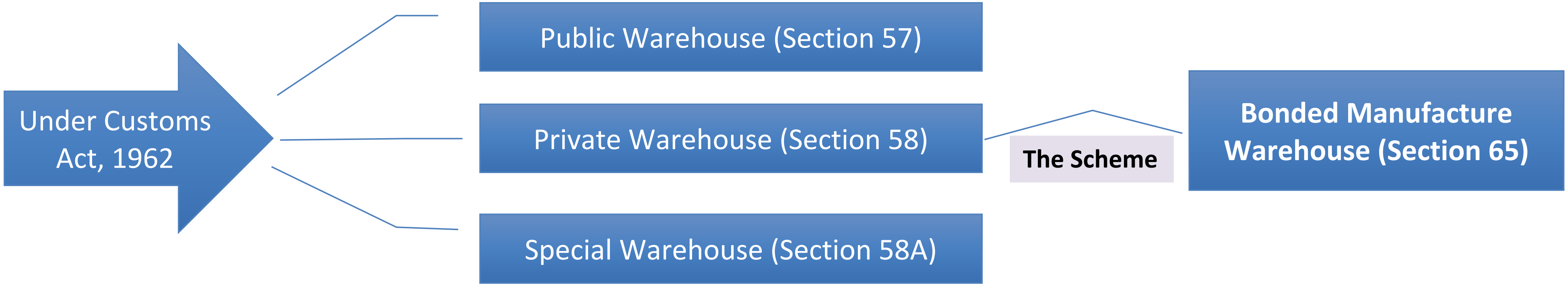
- Fate of export-incentive schemes such as Export Promotion Capital Goods (EPCG), Special Economic Zone (SEZ) and Export Oriented Unit (EOU) uncertain due to the dispute at the World Trade Organization (WTO)
- When compared to other schemes, this scheme can give Competitive Edge.
- Merchant Export for India Scheme, no more attractive now.
- What new Foreign trade policy will come up with.

Introduction to the scheme



Understanding different form of Warehousing

Different form of Warehousing:



Central board of Indirect Taxes has came up with Manufacturing and Other operation procedure for both warehouses – Private as well as Special Warehouses

Particular	Covered by Which Section of Customs	Applicable Notification	Applicable Circular
Bonded Warehouse Manufacturing	**Section 58** and Section 65	69/2019 dated 01st Oct, 2019	34/2019 Customs
Special Warehouse Manufacturing	**Section 58A** and Section 65	75/2020 dated 17th August,2020	36/2020 Customs

Different form of Warehousing:

Public Warehouse –

(Section 57 of the Customs Act, 1962)

- 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.

Private Warehouse –

(Section 58 of the Customs Act, 1962)

- 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**

Special Warehouse –

(Section 58A of the Customs Act, 1962)

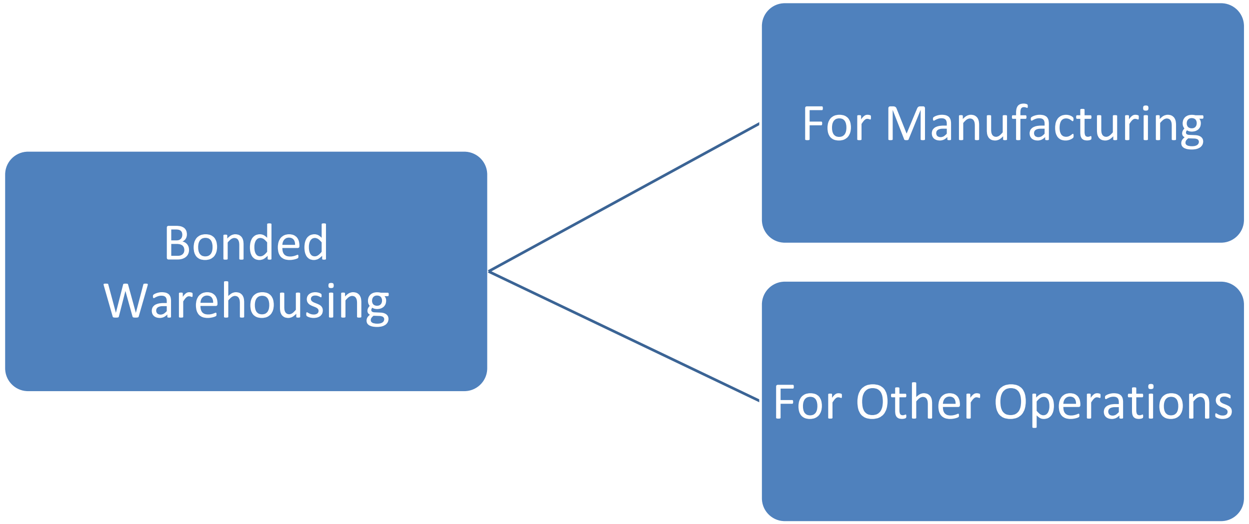
- The Principal Commissioner or Commissioner of Customs may, subject to conditions, license a special warehouse under Section 58A wherein dutiable goods (**notified goods by the CBIC**) may be deposited and such warehouse shall be **caused to be locked by the Proper Officer** and no person shall enter the warehouse or remove any goods therefrom **without the permission of the Proper Officer**

Who can apply for the Scheme

Bonded Manufacturing Warehouse – Section 65 and Section 58

- A **customs bonded warehouse** is a licensed premise where manufacturing and other operations such as packaging, labelling and repacking can be carried out on **deferred payment** of various **duties** (i.e. BCD, SWS and IGST) which are levied at the time of Import of goods in India.

- **This Scheme benefits various manufacturers and global online retailers having e-commerce business which envisages for operations such as packaging, labelling, and repackaging.**



Lets understand point to ponder over here, What do it mean by OTHER OPERATIONS?

Who can apply for the 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) *

Moreover Notification 77/2020, specifically says that for specified goods for Warehouse operating under section 58A, MOOWR 2019 will not apply and for Specified goods falling in category of Special Warehouse notification 75/2020 need to be referred upon.

*Earlier in MOOWR 2019 regulation, regulation 3 has only one condition of Section 65, however through notification 76/2020, additional condition of Warehouse being licensed under Section 58 is added.

Why Bonded Manufacturing Warehouse

Biggest Advantage:- Duty is deferred, lets understand how it works?

Input/Output	Raw Materials/Capital goods/Other inputs into a Bonded Manufacturing Premises		Clearance from bonded manufacturing premises	
	From Foreign Country	From DTA	Clearance to Domestic Market	Export
Raw Material and other inputs	BCD+SWS+IGST are deferred	GST is levied Input tax credit available	Levy of BCD+SWS+IGST*	No BCD+SWS IGST is zero rated (or nil)
Capital goods	BCD+SWS+IGST are deferred	GST is levied Input tax credit available	Levy of BCD+SWS+IGST	No BCD+SWS IGST is zero rated (or nil)
Finished goods	Warehousing or other operations (like re-labelling or re-packaging, etc.) allowed. Duty is deferred for 90 days for storage only(Stored as such) purpose in a Bonded Warehouse	Not a viable model No benefits	BCD+SWS on raw material (minus wastages) + IGST on finished goods	No BCD+SWS IGST is zero rated (or nil)

*** If cleared as such then interest is levied on duty deferred beyond 90 days**

Note: When bonded goods are exported, refund of input taxes or IGST payable on export can be availed

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Other Advantages of the Scheme

Advantages of Bonded Manufacturing

Single Point of Approval	• **Commissioner of Customs** acts as the single point of contact for all approvals
Common Form	• **Common application and approval form** for a license for private bonded facility and permission for manufacturing and other operations
Reduced cost of compliance	• **No application fee** nor any incremental compliance cost other than setting up and maintenance of bonded warehouse
No bar on period of warehousing	• Capital and non-capital goods (raw materials, components, etc..) can **remain warehoused until clearance or consumption**
No geographical restriction	• New manufacturing facility can be set up or an existing facility can be converted into a bonded manufacturing facility **irrespective of its location in India**

Advantages of Bonded Manufacturing

Easy Compliance	• All records of manufacturing and other operations to be maintained digitally in a **single format as specified in Annexure B of MOOWR,2019**
Seamless warehouse to warehouse transfer	• Goods can be transferred from the bonded facility to another facility **without payment of duty**
No fixed export obligation	• **No limit on quantum of clearances** that can be exported or cleared to the domestic market
Benefit of Other Schemes as well as GST benefit of ITC refund available	• With bonded manufacturing warehouse facility, **various benefit / other schemes** like EPCG, Advance authorization etc., **can also be claimed**
Waste / destroyed goods	• The waste occurring on exporting of resultant product from bonded warehouse **shall not be liable for any payment of import duty if such waste is destroyed**

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Certain advantages to be pondered upon:

Only in case of **Removal as such** interest is payable of duty and tax after 90 days**, in other case NO INTEREST IS to be paid.**

In case Domestic supplier want to **import capital goods**, the supplier can evaluate this scheme.

This Scheme eligible for 100% Domestic supplier also

100% Domestic supplier can save upon interest cost on working capital blockage in duties and taxes

There is NO application fees for the Scheme.

How to Apply for the Scheme

How to apply license for Bonded Manufacturing ?

Step 1

- Fill **Online Application** as per Annexure A of MOOWR, 2019 with the required details and documents in **Annexure A**

Step 2

- Execute a **triple duty bond** as per Annexure C of MOOWR,2019 and submit a physical copy to the respective Jurisdictional Commissioner of Customs*

Step 3

- **Commissioner of Customs grants the permission** for manufacturing or other operations in the bonded facility

***Before execution of a Bond, a Customs Officer visits the facility to evaluate the compliances in order to issue the license**

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Understanding requirement of Security Deposit:

Is Security Deposit Mandatory for Execution of Bond for Bonded Manufacturing Warehouse?

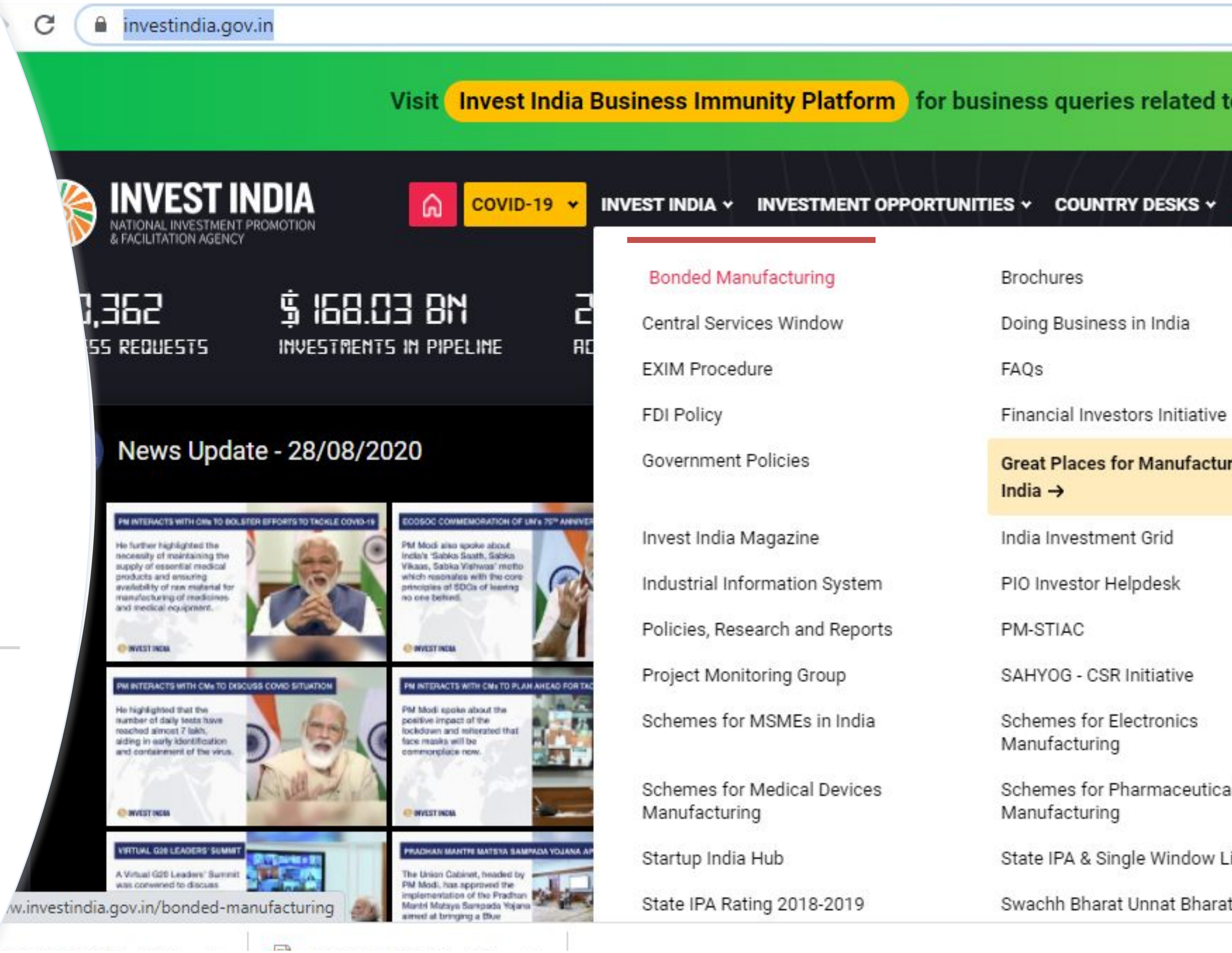
Circular no. 21/2016 of customs provides exemption from requirement of security amount under section 59(3) of the Customs act for goods used in the units operating under manufacture – in – bond scheme under section 65 of the act.

This is great advantage to trade and industry, as it will save their working capital.

Reference can be made to Circular 21/2016 dated 31st May 2016.

Walk through to Invest India Portal:

URL: **https://www.investindia.gov.in/**



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01 Overview
- 02 Advantages of Bonded Manufacturing
- 03 Types of Beneficiaries
- 04 Steps to Start Manufacturing
- 05 Steps for Clearance of Warehoused Goods
- 06 Essentials to Benefit from Bonded Manuf...
- 07 Requirements for Record-keeping
- 08 Stakeholders
- 09 Gallery

ANNEXURE B | ANNEXURE C | TRANSFER OF GOODS

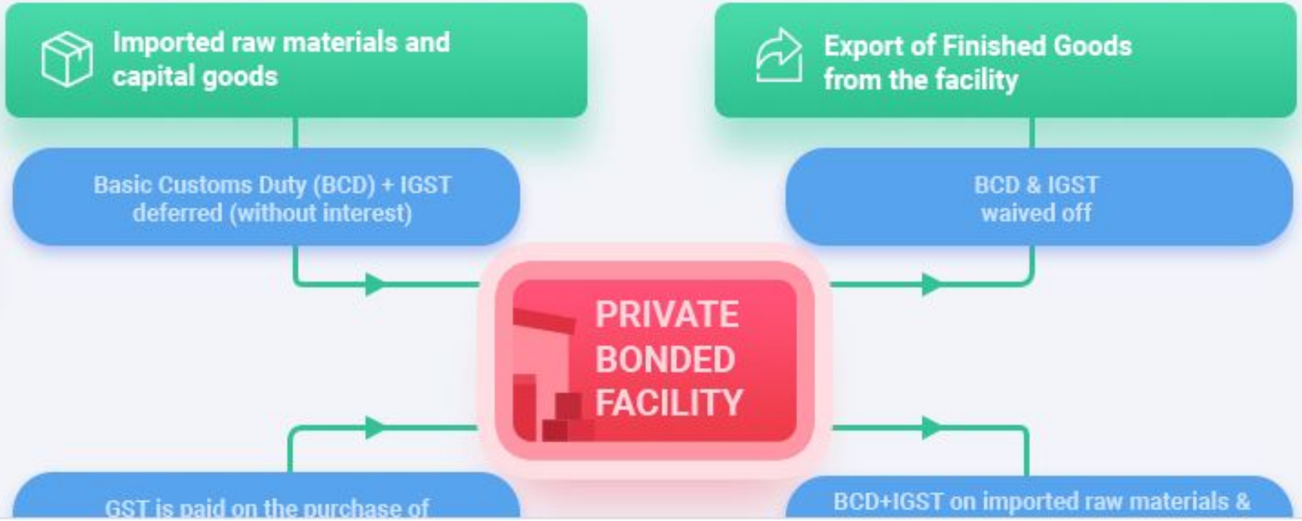
FAQS

NEW APPLICATION

RETRIEVE APPLICATION

With the Government's continuous efforts to promote India as the manufacturing hub globally and the commitment towards ease of doing business, another initiative in this direction by the Central Board of Indirect Taxes (CBIC) is **allowing import of raw materials and capital goods without payment of duty** for manufacturing and other operations in a bonded manufacturing facility.

When the raw materials or capital goods are imported, the import duty on them is deferred. If these **imported inputs are utilised for exports**, the **deferred duty is exempted**. Only when the **finished goods are cleared to the domestic market, import duty is to be paid** on the imported raw materials used in the production. Import duty on capital goods is to be paid if and when the capital goods are cleared to the domestic market.



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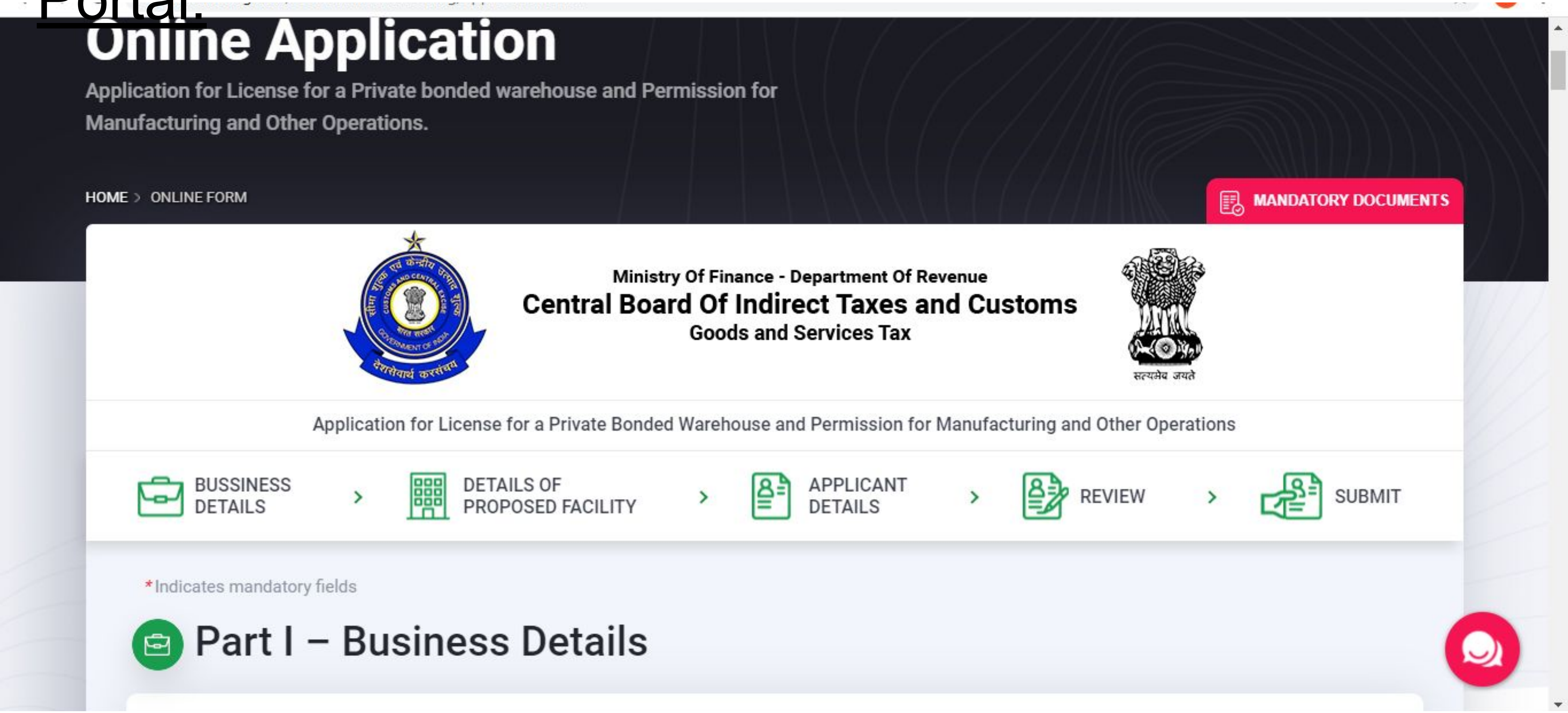

Walk through to Invest India Portal:

Manufacture and Other Operations in Warehouse (No.2) Regulations, 2019

PROCEDURE & COMPLIANCES

About MOOWR, 2019

To facilitate timely clearances and for convenience of the trade, **prior permission of the proper officer is not an essential condition for removal of the warehoused goods** (as part of the resultant goods), provided documentation such as the **Form for transfer of goods from a warehouse, bill of entry and shipping bill, and payment of duties due has been made**

Regulations for Units Operating Under Section 65 and Section 58

Undertaking in application

- The applicant shall give an undertaking to **maintain accounts** of receipt and removal of goods, **execute bond** and **inform input-output norms** wherever considered necessary

Appointment of warehouse keeper

- The licensee under Section 65 shall appoint a **warehouse keeper** who has sufficient experience in warehousing operations and customs procedures to discharge functions on his behalf
- Such person shall also **obtain a digital signature** for filing electronic documents required under the Act or Rules made thereunder

Facilities, Equipment and Personnel

- The licensee shall provide **signage** at the warehouse that prominently indicates that the site or building is a customs bonded warehouse
- Also, a **computerized system for accounting** of receipt, storage, operations and removal of goods and such facilities, equipment and personnel as are sufficient to control access to the warehouse and provide **secure storage of the goods**, shall also be provided by the licensee

Security Facilities for Warehouse under MOOWR,2019:

What security facilities premises should have?

- Facilities, equipment and personnel as are sufficient to **control access** to the warehouse and provide secure storage of the goods in it, including:
  - Doors & other building components of sturdy constructed
  - Secure locks on doors and windows
- **Fire Security Audit Certificate** issued by a Qualified Independent Agency
- **CCTV** Facility is expected
- Provision of **Security Guards – 24 hrs** is expected

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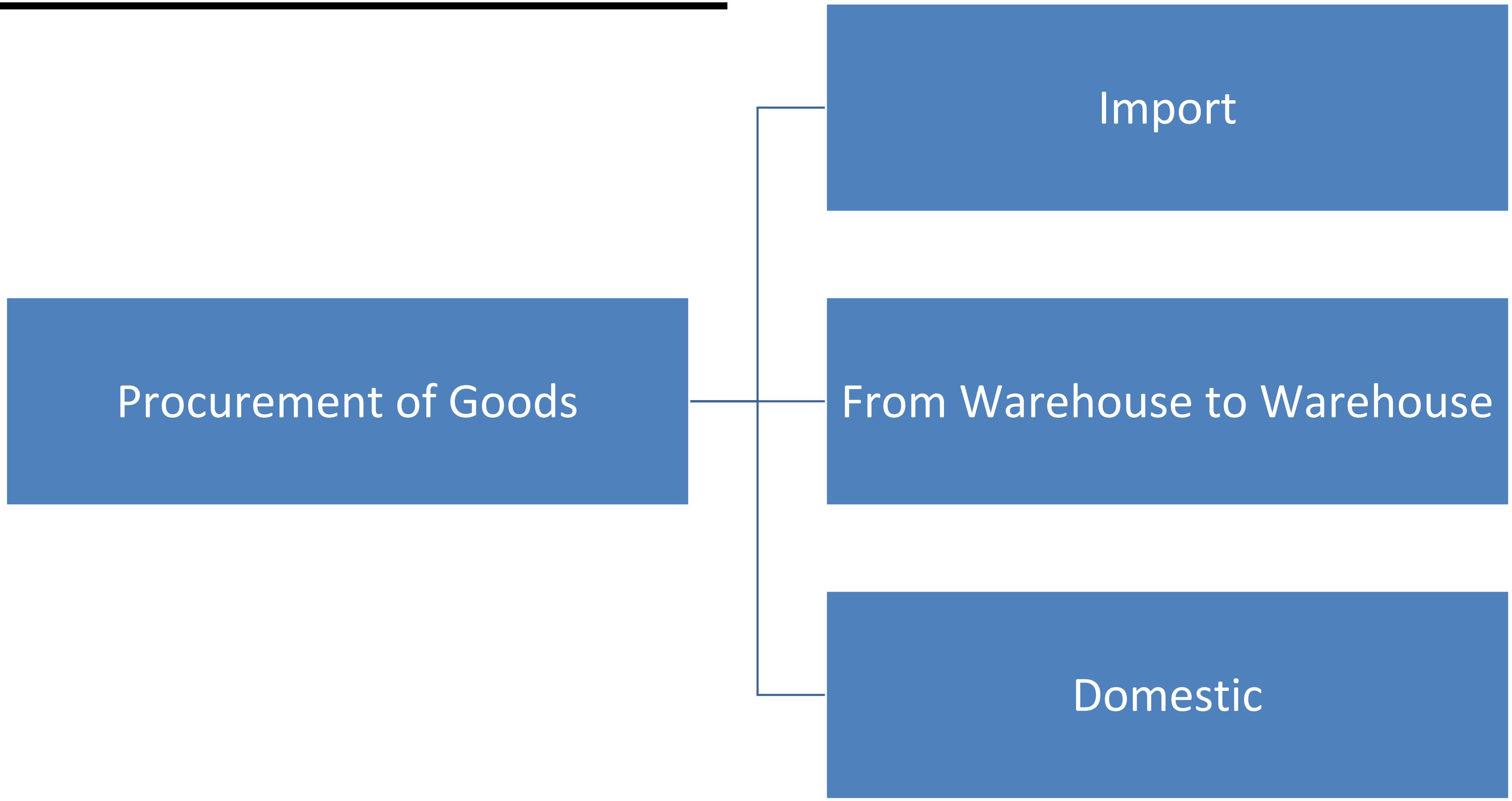
Other Permission to be Obtained under Regulation MOOWR,2019:

Other Conditions

- Applicant need to get permission for one time lock for movement of goods.
- Obtain permission for self-sealing of Container.
- inform the input-output norms, wherever considered necessary for raw materials and the final products and to inform the revised input-output norms in case of change therein
- The warehouse in which section 65 permission is granted shall also be declared by the licensee as the **principal/additional place of business for the purposes of GST**

Procurement of Goods:



Procedure for Imports:

Verify the One-Time-Lock on the container of goods affixed by the proper officer at the customs station.*

Inform to Bond Officer immediately if the One-Time-Lock is not found intact & refuse to unload of goods.

While unloading the goods, verify the quantity of goods received – Fill the form **Annexure B** as prescribed under Section 65.

While unloading the goods, verify the quantity of goods received reconciling with Bill of Entry for warehousing and report to Bond Officer if any discrepancy found within twenty four hours.

Acknowledge the receipt of goods to proper officer referred to sub section (1) of section 60 and to the Bond Officer regarding the receipt of goods in the warehouse (Intimation only).

*Provided that the Principal Commissioner of Customs or Commissioner of Customs, as the case may be, may having regard to the nature of goods or manner of transport, permit transport of such goods without affixing the one-time-lock.

Procedure for one Warehouse to Another Warehouse:

Verify the One-Time-Lock on the container of goods affixed.

Inform to Bond Officer immediately if the One-Time-Lock is not found intact & refuse to unload of goods.

While unloading the goods, **verify the quantity of goods received reconciling with Bill of Entry for warehousing and report to Bond Officer if any discrepancy found within twenty four hours.**

Acknowledge the receipt of goods by endorsing the transportation documents and retain a copy thereof and take into record the goods received.

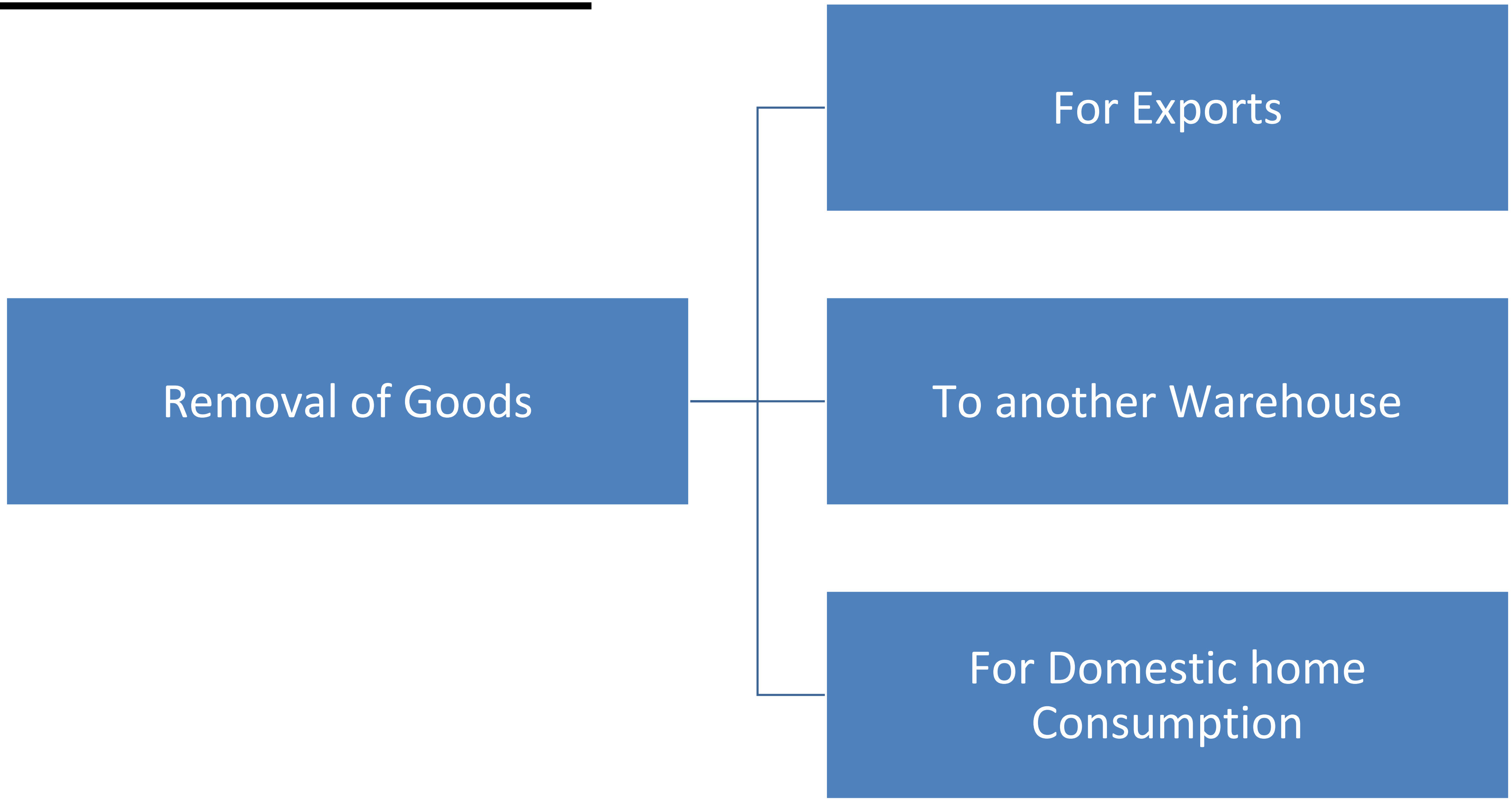
Acknowledge the receipt of goods by endorsing the transportation documents and retain a copy thereof and take into record the goods received.

Acknowledge the receipt of goods to the Bond Officer and to the warehouse keeper of the warehouse from where the goods have been received.

Procedure for Domestically Procured:

The records in respect of such domestically procured goods shall be indicated in the form **Annexure B** as prescribed under Circular 34/2019.

Removal of Goods:



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Removal of Goods:

For Home Consumption:

- Licensee shall file Bill of Entry in respect of warehoused goods and the import duty in respect of such goods is paid.
- Shall retain BOE copy and take in records the goods removed.
- GST Provisions applicable.

Exports:

- File the Shipping bill or Bill of Exports and affix a One Time Lock.
- Take into record the Goods removed.
- GST Provision applicable.

For another Warehouse

- Load the Goods and affix the **one time Lock.**
- Endorse the number of the One- Time- Lock as well as transport documents and retain the copy thereof.
- Take into record the removal of Goods.
- Acknowledge the documents to the Bond Officer.

What about Waste generated during Manufacturing:

Treatment of waste generated during Manufacturing

- The waste generated during manufacture of the resultant product can be **cleared on payment of applicable duties of customs and GST**

- In case of export of finished goods, the duty on waste is paid as if the waste was imported. Licensee can also get the duty remitted by **destroying the waste generated**.

- The waste occurring on exporting of resultant product from bonded warehouse **shall not be liable for any payment of import duty if such waste is destroyed**

Licensee need to file Acknowledgement:

Procedure of filing and consequence of non-filing

- Licensee shall produce the acknowledgement issued by the licensee of the warehouse or proper officer at Customs, stating that the goods have arrived at that place to the Bond Officer in charge of the warehouse **within one month from the date of removal of goods from the warehouse.**

- If the Licensee fails to produce acknowledgement before Bond Officer in charge of the warehouse within time period then **Licensee shall pay the full amount of duty chargeable on account of such goods together with interest, fine and penalties payable under section 72 (1).**

Requirements for Maintenance of Records:

Maintenance of Records	Preservation of physical and digital records	Filing Monthly returns

▪ Maintain detailed records of receipt, handling, storing and removal of goods into/ from the facility as per **Annexure B.**
 	
▪ Keep record of each activity, operation or action taken in relation to the warehoused goods
 	
▪ Keep record of drawl of samples from the warehoused goods
 	
▪ **Keep copies of the following documents**
  ▪ Bills of Entry
  ▪ Transport documents
  ▪ Forms for transfer of goods from warehouse
  ▪ Shipping Bills
  ▪ Bills of Export
  ▪ Any other documents indicating receipt/ removal of goods from the warehouse
	▪ Update records and accounts accurately and preserve for a **minimum 5 years** from the date of removal of goods from the facility
	▪ Preserve updated **digital copies of records at a place other than the facility** to prevent loss of records due to natural calamities
		File monthly returns within 10 days of closing of the month.
		Return will contain following details:
		• Receipt,
		• Storage,
		• Operation,
		• Removal of the goods in the Warehouse.

Certain disadvantages of the Scheme

Disadvantages of the Scheme:

Digital Maintenance of Records

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**.

Service operations not allowed

Only manufacturing or other related operations are allowed. **No service operations are allowed**

Disadvantages to domestic market

No exemption has been given to domestic suppliers for supply to these units. GST is applicable to supplies made to the bonded zones and credits may be availed against the same which may later be used when the bonded units supply goods to domestic market. However, not having an upfront exemption would tilt the choice towards imports, assuming all other conditions being same

No Fiscal benefits / Duty drawback

No income tax benefit available for bonded manufacturing warehouse. Also, duty drawback cannot be claimed under bonded warehouse

Audit of entities

The audit of units operating under section 65 would also be based risk criteria. There is no prescribed frequency for such audit and hence its always necessary to maintain proper and up-to-date records

Comparisons with other Schemes

Why Bonded Manufacturing over Other Schemes ?

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
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

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Why Bonded Manufacturing over Other Schemes ?

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

Way forward

Way forward:

- Bonded Warehouse is great boost to business having manufacturing process and heavily dependent on Imports.
- Existing Business premises can be converted to Bonded Manufacturing Warehouses.
- Bonded warehouse in long run will promote Manufacturing in India- and will make India a global hub of manufacturing
- Optimum Capacity utilization can be achieved by using a single Manufacturing facility to tap both Domestic and global Markets.

Points to be taken care of:

- Non-availability of Depreciation on Imported Capital Goods at time of clearance from bonded warehouse at later stage.
- Tracking of imported content in goods that are processed and maintaining complete digital records.
- Non availability of Draw-back on Exported Goods.
- Requirement of physical records, and filing monthly returns.

Areas where industry can be helped:

- Evaluating cost- benefit analysis with existing Scheme vis-à-vis MOOWR.
- Assistance end to end Support from application for Bonded Warehouse to Bond Execution and permission to start Operation.
- Handholding assistance in maintenance of record.
- Assistance in relation to periodic Compliance.

Question and Answer (Q&A)

Thank You.

Incase of any query, you can contact me on:

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