Broadening the Tax Base
Ensuring our Future Prosperity

Import/Export Trade and Logistics

Consultation Document Leaflet

July 2006

Financial Services and the Treasury Bureau
The Government of the Hong Kong Special Administrative Region

This leaflet is specifically provided for reference by the import/export trade and logistics (including transport) sector and is designed to supplement the information outlined in the Consultation Document.

1 How would the proposed Goods and Services Tax (GST) apply to the import/export trade and logistics sector?

Import of goods would be taxable when they were entered for home consumption (i.e. goods to be sold or used in Hong Kong). Importers would be required to pay GST before taking possession of their imports.

For trade facilitation, GST would be suspended while imported goods were stored in Approved Temporary Storage Areas or Bonded Warehouses. In addition, special schemes to allow deferral (Deferred GST Payment Scheme) or waiver (Qualifying Exporters Scheme) of the payment of GST would be available for traders. [Please see 4 to 7 for more details of these schemes.]

Goods in transshipment would not be subject to GST. Transit cargoes that were brought into and out of Hong Kong and at all times remained in an incoming vessel or aircraft would not be subject to GST either.

Export of goods and international supplies, including international transport and related logistics activities, would be zero rated, i.e. no GST would be chargeable on the goods or services, but the registered supplier could reclaim the GST paid on his purchases.

2 What measures would be put in place to alleviate the impact of GST on the import/export trade and logistics sector?

Under the proposed GST framework, export of goods and international supplies would be zero rated. As there would be no GST on these items, the competitiveness of these trades would not be affected. Indeed, in considering the definition of international supplies, a generous definition has deliberately been proposed so as to zero rate most ancillary and supporting services related to the export sector.

In addition, the proposed facilitative arrangements, such as the Deferred GST Payment Scheme, Bonded Warehouses Scheme and Qualifying Exporters Scheme, would be helpful to importers and exporters in relieving any potential cashflow concerns. Furthermore, reductions in other taxes would be beneficial to traders of this sector.

3 What would be the Customs clearance requirements for import and export of goods under the proposed GST?

For the purpose of control and collection of GST, importers would be required to lodge goods declarations electronically to the Customs and Excise Department (C&ED) and pay GST before taking possession of their imports.

For goods imported by trucks, importers would be required to lodge goods declarations and pay GST before the truck arrived at the land boundary control point. GST-registered exporters would be required to lodge a goods declaration before shipping out their goods. Transshippers would also be required to file goods declarations with C&ED before taking delivery of their transshipment goods for onward carriage.

Carriers would be required to ensure that only cargo consignments with Customs authorisation were released to importers or transshippers. Verification of the Customs authorisation could be made via a computer terminal connected to the Customs GST system.

Currently, traders are required to lodge import/export declarations within 14 days after import/export of the goods. Given that some of the data required are common to those of the goods declaration, importers/exporters would be allowed to make goods declarations and import/export declarations simultaneously if all necessary information was available.

4 What would be the "Deferred GST Payment Scheme" (DGPS)?

To address the cashflow problems of importers, a DGPS would be put in place to allow a deferral of payment of GST on imports. The proposed framework for our scheme would be generous and would maintain Hong Kong's competitiveness and position as an efficient trading centre.

While details of the DGPS would be subject to consultation, it is proposed that it would include the following features:

- all importers, not necessarily only GST registrants, might apply for the DGPS;
- approved importers could enjoy a deferred payment period of between three and seven weeks;
- importers who were GST registrants would account for the deferred GST when submitting GST returns to the Inland Revenue Department (IRD); and

- importers who were not GST registrants would pay the deferred GST to C&ED prior to the end of the deferment period.

5 What would be the "Qualifying Exporters Scheme" (QES)?

Like the DGPS, the QES would be designed to facilitate trade by mitigating cashflow issues for importers. This scheme would be more generous for eligible businesses than the DGPS. The QES would be available for GST-registered importers whose export sales (by value) were at least 51% of their total turnover. Imports made by QES participants would receive an indefinite suspension of the GST usually payable on importation.

6 What would be "Approved Temporary Storage Areas" (ATSAs)?

Approved Temporary Storage Areas (ATSAs) would be temporary storage places for storing imported goods pending Customs clearance. Existing temporary storage places, including cargo terminals at the Airport, Kwai Chung Container Terminals, River Trade Terminal, Public Cargo Working Areas and private wharves would be authorised and licensed as ATSAs. GST would only be charged when imported goods were removed from the ATSAs for home consumption. ATSA operators could only release the goods with Customs authorisation. They might be required to furnish a financial security to the Government to cover any revenue loss as a result of the mishandling or loss of the goods.

7 What would be "Bonded Warehouses" (BWs)?

Bonded Warehouses (BWs) would be premises licensed by C&ED. They would be used for longer-term storage of imported goods while GST was suspended. Importers joining DGPS and QES normally would not need any bond facilities. BWs would likely be used by importers who were not registered for GST but required bond facilities for storage of their imported goods pending re-export.

Simple operation-in-bond and logistics operations, without changing the original characteristics of the goods, might be allowed in BWs. GST would only be charged when the goods were removed from the bonded warehouses for local consumption.

BW operators would be required to comply with security standards and maintain inventory and record-keeping systems. They might also be required to furnish financial security to the Government to cover the potential GST payable on warehoused goods.

8 How would GST be calculated on imported goods, including dutiable commodities?

For general imports, GST would be calculated on a percentage of the CIF (cost, insurance and freight) value of the goods. For dutiable commodities, the assessment of GST would be based on the sum of the CIF value of the goods and duty payable.

Additional Information Available

An electronic copy of this leaflet, the Consultation Document, as well as other relevant reports and leaflets are available at the website **www.taxreform.gov.hk**.
Further information will be posted on to this website when appropriate.

Additional Leaflets

- Tax Reform and Households
- Small Business
- Wholesale and Retail Sector
- Financial Services Sector
- Property Sector
- Tourism and Hospitality Sector

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