

INVEST INDIA
NATIONAL INVESTMENT PROMOTION & FACILITATION AGENCY

BONDED MANUFACTURING

Scheme for Manufacturing and Processing in a Bonded Facility

Overview

Bonded Manufacturing — A Newly Improvised Scheme to Boost "Make in India"

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Introduction to Bonded Manufacturing

The concept of bonded manufacturing is not new as it already existed as **Section 65 of Customs Act 1962**. In the last one-year, Central Board of Indirect Taxes and Customs (CBIC) under Ministry of Finance has improvised the scheme and has simplified associated procedures as a part of on-going Ease of Doing Business initiative of Government of India.

To convert a new or existing facility into a bonded manufacturing premises, it is mandatory to seek license under section 58 (that converts a premise to bonded warehouse) along with a license under section 65 (that permits manufacturing or other operations like packaging, re-labelling in a bonded warehouse).

For convenience of both domestic and foreign investors, CBIC has created a digital common application form to seek license under section 58 and 65 that is available at dedicated web page at **Invest India website**.

In the spirit of Ease of Doing Business, there will be no regular auditing or approvals required to clear the goods in domestic tariff area (DTA) from a bonded manufacturing premise. However, the premises must ensure proper safety and security through measures like installation of CCTV cameras, fire safety measures and deployment of security personnel.

The unit just need to maintain records as per a single format specified in **Annexure B of Manufacture and Other Operations in Warehouse Regulations 2019** which should be submitted in the office of Jurisdictional Commissioner of Customs on a monthly basis.

Let us now understand what type of duties/taxes are levied on imported items in India for a better understanding of the benefits of Bonded Manufacturing:

A. Basic Custom Duty (BCD): This is the tax levied on the Assessment Value of the goods that have landed at the customs border of India. It can vary between 0% to 100%. BCD depends upon the HSN code of the product and the Country of Import.

B. Social Welfare Surcharge (SWS): It is a tax imposed on the value of goods including the BCD value. It is generally 10% unless the good is exempted from this tax.

C. Integrated Goods & Services Tax (IGST): IGST is imposed on the imported goods to provide a level playing field for domestic manufacturers, who also pay an equivalent tax (Central GST + State GST or IGST) on sale of goods. IGST on imported goods can be set-off against any other GST liability in India. There are five slabs of IGST 0%, 5%, 12%, 18%, 28%.

D. Compensation Cess: This is an additional tax that is imposed along with GST on both imported items as well as domestically manufactured items on products that are classified as notified E.g. Special Utility Vehicles, Cigarettes, Tobacco, Aerated Water, etc.

Details on calculation of import duties in India and various online tools can be accessed at **Calculation of Import Duty in India — Formula, Online Tools and Exemptions**

Figure I: Simplified Illustration of Levy of Customs Duties on Inputs and Outputs from Bonded Manufacturing Premises

Input/Output	Raw Materials/Capital Goods/Other Inputs into a bonded manufacturing premises	Clearance from bonded manufacturing premises

	Imported from Foreign Country	Procured from Indian Market or Domestic Tariff Area	Clearance to Indian market or Domestic Tariff Area	Export to a Foreign Country
Raw Material and Other Inputs	BCD+SWS+IGST are deferred	GST is levied. Input tax credit available.	Levy of BCD+SWS+IGST. If cleared as such then interest is levied on duty deferred beyond 90 days.	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 on depreciated value (as per depreciation schedule in Income Tax Act) If cleared as such then interest is levied on duty deferred beyond 90 days.	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 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)

Bonded manufacturing premises allows deferment of customs duty on imported raw material, inputs and capital goods. Unlimited period of duty deferment for manufacturing or other operations, and no export obligations are some of the other advantages.

Since a bonded manufacturing premises is also allowed to act like a bonded warehouse, the organization is required to maintain records to the goods that are cleared to DTA without any value addition. Such transactions attract both customs duty and interest (if customs duty are deferred for over 90 days) as per section 61 of the customs act 1961. this flexibility is permitted with the spirit of attaining maximum capability utilization.

Scenarios — Suitability of Manufacturing in a Bonded Premises

Mentioned below are a few examples of what type of manufacturing units may find a bonded manufacturing premises conducive for their business model:

A. Your manufacturing processes are heavily dependent on imported inputs (raw material and capital goods) and you want to defer payment of duties till the manufactured goods leave factory premises. E.g. Electronics Manufacturing, Lithium-Ion Battery Manufacturing, etc.

B. You are keen to explore opportunities in foreign and domestic market but unsure about the demand for your products in foreign markets. Hence, you do not want to commit to export-focused zones like Special Economic Zones (SEZ) or Export-oriented Unit (EoU) scheme.

C. You want to tap both domestic and export market through a single manufacturing facility and achieve optimal capacity utilization in your factory.

D. You are keen to establish a unit in a particular area (due to proximity to market/vendor ecosystem/ specialized human resources/availability of good infrastructure) but there is no SEZ in that area or you are unable to find a suitable plot/facility in established SEZs.

Comparison of Bonded Manufacturing with Other Schemes in India

Are bonded manufacturing premises the only option for customs duty deferment or exemption? certainly not, there are several other types of zones (established under different schemes) in India which could be suitable for manufacturing. Special Economic Zones (SEZ) and Export-oriented Unit (EoU) were conceptualized as zones for export purpose. SEZs and EoUs are also permitted to have DTA sales after fulfilment of export obligations.

Bonded manufacturing premises and Domestic Tariff Area (DTA or any Industrial park) are predominately promoted for manufacturing products for domestic market. Off course, they are also eligible to export entire production in accordance with Foreign Trade Policy of Government of India.

Bonded manufacturing units are also eligible to receive all benefits of reduced Basic Customs Duty (BCD) available under the arrangements such as free trade agreements, preferential trade agreements, Customs Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods (IGCR 2017). To avail such benefits, imports need to mention the bonded warehouse as the destination in the bill of entry (BoE) and then at the time of DTA clearance the benefits of reduced BCD can be availed.

Figure II: Comparison of Bonded Manufacturing with SEZ, EoU and DTA

Parameters	Special Economic Zone (SEZ)	Export-Oriented Unit (EoU)	Bonded Manufacturing	Domestic Tariff Area (DTA)
Laws	SEZ Act 2005 and SEZ Rules 2006	Foreign Trade Policy and Foreign Trade Procedures	Section 58 & Section 65, Customs Act 1962	State Industrial Development Acts

Concept	• Designated duty-free enclave. Foreign territory for trade operations, duties, and tariffs • Manufacturing/Service operations allowed • Exemption from Customs Duty (BCD, SWS and IGST) on any imported raw materials or capital goods • DTA Clearance: Payment of BCD + SWS+ GST on finished goods • DTA to SEZ considered exports. Zero rate for GST	• Export-oriented zones established through a scheme in 1980 • Manufacturing/Service operations allowed • Same as SEZ • Permission is required for DTA sale of unutilized goods. Similar levy of Customs Duty as for SEZ • DTA to EoU considered deemed exports. Zero rate for GST	• Scheme predominately designed to serve domestic market, with no export obligations • Manufacturing allowed. Service operations not allowed • Deferment of Customs Duty till clearance to DTA or export. No time limit and interest payment on deferred duties post value addition. • DTA Clearance: Payment of BCD+SWS on raw material + GST on finished goods (input tax credit on GST available) • DTA to Bonded Premises: No exemption from GST on domestically procured capital goods and raw materials	• Any industrial unit that is not a SEZ/ EoU/Bonded facility is DTA • All types of activities are allowed • Domestic Sales: No duty deferment. Manufacturer also pays GST on raw material and capital goods • Export Sales: Duty deferment through schemes under Foreign Trade Policy (FTP) • DTA to DTA/Bonded Premises attracts GST. Input Tax Credit is available • DTA to SEZ/EoU are exempt from GST
Eligibility Criterias	• Multi-product SEZ: 50 hectares land • Single-product SEZ: 50 hectares land • Specific Sector SEZ: 10 hectares land (ESDM, Food Processing, Biotech, handicrafts) • SEZ in North East, Union Territories and Goa: 25 hectares	• Minimum investment of INR 10 million in plant and machinery for a new unit • Minimum investment of INR 50 million in plant and machinery to convert existing factories to EoU • Can be established in approved industrial zones across India	• Any existing or new factory can be converted to a bonded premise • Can be established in approved industrial zones across India	• DTA units should be established in approved industrial zones across India
Export Obligations	• Positive Net Foreign Exchange (NFE) in successive blocks of 5 years from commencement of operations.	• Positive Net Foreign Exchange (NFE) in 5 years from commencement of operations	• No obligations of Positive NFE • No minimum thresholds for exports. 100% output can be sold in DTA	• No obligations for exports. Exports are encouraged through incentives in FTP
Fiscal Benefits — Direct Taxes	• Corporate Income Tax Exemption: Section 10 AA of Income Tax Act 1961 (till 31 March 2020)	• Same as bonded manufacturing and DTA	• Corporate Income Tax: @25.17% (Base Rate @22%) - Applicable for existing companies	• Same as bonded manufacturing and EoU

	- 100% for the first 5 years of operations - 50% for next 5 years. - 50% of the ploughed back profits for next 5 years • Sunset Clause: 1 April 2020 *(Being Reviewed)* • No exemption from Minimum Alternate Tax (MAT) starting FY12 - MAT reduced from base rate @18.5% to @15% in September 2019. Effective 1 April 2019 • No exemption from Dividend Distribution Tax (DDT) starting 2012 - Effective rate of DDT @20.56% (Base rate @15%)		- No other incentives under Income Tax Act 1961 - No MAT • Special Make in India Window: @17.16% (Base Rate @15%) - Cos. Incorporated after 1 October 2019 - Commencement of production after 31 March 2023 - No other incentives under Income Tax Act 1961 - No MAT • DDT applies on Equity or Withholding Tax on debt	
Fiscal Benefits — Foreign Trade Policy (FTP)	• Foreign Trade Policy is currently under review • SEZ scheme and other applicable FTP benefits like MEIS/SEIS are ruled to be non-compliant WTO's Agreement on Subsidies & Countervailing Measures (SCM). • Corporate Income Tax benefits being offered to a SEZ unit are likely to phased out in FY21 • New scheme titled Remission of Duties or Taxes on Export Product (RoDTEP) likely from FY21	• Foreign Trade Policy is currently under review • EOU scheme like SEZ is ruled to be non-compliant WTO's Agreement on Subsidies & Countervailing Measures (SCM) by WTO's dispute settlement panel.	• Currently, being discussed with Directorate General of Foreign Trade (DGFT).	• Foreign Trade Policy is currently under review. Existing export benefit schemes available for DTA like EPCG, DFIA, MEIS, SEIS are being reviewed and being changed. • New scheme titled Remission of Duties or Taxes on Export Product (RoDTEP) likely from FY21
Fiscal Benefits — Indirect Taxes &	Benefits from central government	• Same as SEZ	Benefits from central government • Deferment of customs duty on imported raw	Benefits from central governments • Capital subsidy for specific sectors

Other Incentives	• Exemption of customs duty on raw materials and capital goods • Drawback on goods brought or services provided from DTA to SEZ Units Benefits from state government (varies by state) • Exemption from stamp duty and registration fees on lease of land / mortgage deed • Exemption from Electricity Duty for 10 years from date of operation		materials and capital goods Benefits from state government (varies by state) • Same as availed by DTA units (Details on benefits should be discussed with State governments)	Benefits from state government (varies by states) • Exemption from stamp duty and registration fees on lease of land / mortgage deed • SGST refunds • Capital subsidy • Electricity duty exemption • Wage subsidies
Operational Benefits	• Single Window Clearance — Development Commissioner (varies by state) • No routine examination by customs of export and import cargo. cargo clearance by self-certification • Relaxed labor laws for SEZs in some states	• Single Window Clearance — Development Commissioner (varies by state) • No routine examination by customs of export and import cargo. Cargo clearance by self-certification	• Single Window Clearance — Commissioner of Customs (varies by state) • Ease of Compliance. All records can be maintained digitally in a single form • Easier compliances than SEZ/EoU	• Single Window Clearance — state-specific portals and processes • DTA suppliers to SEZ can avail export incentives and supplies to EoU can avail deemed exports benefits • Ease of doing business program by central and state governments simplifying manufacturing processes

Let us take an illustrative example **(Figure III)** to understand the difference between SEZ and Bonded Manufacturing, when the finished products are cleared to DTA:

Figure III: Illustrative Calculation of Applicability of Customs Duty on DTA Clearance for SEZ Vs Bonded Manufacturing Premises

S.No.	Items and Description	Value (INR)	SEZ (INR)	Bonded Premises (INR)
A	**CIF value of the imported raw material**, including 1% landing charges	Assessment Value = CIF Value +1% landing charges	110 (BCD+SWS+IGST exempted)	110 (BCD+SWS+IGST Deferred)
B	**Value addition in the factory**	Including direct/indirect costs associated with the manufacturing process	200	200
C	**Total Ex-works value of the product** (excluding an assumed wastage of INR 10)	A+B-wastage of raw material (As per standard input output norms)	300	300
D	**Basic Custom Duty** (BCD) @ X % of Ex-works value. Assume all raw material or inputs attracts 10% duty	C*10% (SEZ) & A (minus wastage) *10% (bonded premises)	300*10% = 30	100*10% =10
E	**Social Welfare Surcharge** (SWS) @10% of D (as applicable under the Customs Act)	D*10%	30*10% = 3	10*10% = 1
F	**Integrated Goods & Services Tax (IGST)**= (A+B+C+D) *IGST Value. India has five slab rates for IGST — 0%, 5%, 12%, 18%, 28%	(C+D+E) *IGST Value	333*18% = 59.9	311*18% =56.0
G	**Compensation Cess** [As applicable The Goods and Services Tax (Compensation to State) Act, 2017]. Assumption no compensation cess on the product.	(C+D+E+F) *Compensation Cess value	None	None
H	**Total value**	**C+D+E+F+G**	**393**	**367**
I	**Total applicable customs duty**	**H-C**	**93**	**67**

The example above shows that manufacturing in bonded manufacturing for the DTA is more beneficial in a bonded premise vis-à-vis SEZ. Also, please note that SEZ must deduct the sales in DTA for calculating the taxable income that is entitled for corporate income tax exemptions mentioned in the Figure II. Corporate income tax exemptions in an SEZ are available only for the export sales.

We sincerely hope that you found this article a good read. We welcome any suggestions or specific queries pertaining to your business model. You can contact us at Contact@investindia.org.in. We will be happy to respond to you within 72 working hours.

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