INTRODUCTION

Bonded warehouse is a facility wherein imported goods are stored under customs control in a designated place/warehouse. Customs duty is deferred at the time of import of goods and is payable at a later stage only upon clearance of goods for home consumption. The provisions related to warehousing have been formulated under Chapter IX of the Customs Act, 1962 (‘Customs Act’).

DIFFERENT FORMS OF WAREHOUSING

- **Public Warehouse**: Site or a building licensed by the Principal Commissioner/Commissioner of Customs, wherein imported dutiable goods may be deposited.
- **Private Warehouse**: Site or a building licensed by the Principal Commissioner/Commissioner of Customs, wherein imported by or on behalf of the Licensee.
- **Special Warehouse**: Site or building licensed by Principal Commissioner/Commissioner of Customs, which may be subject to such conditions as may be prescribed, and where only the dutiable goods notified may be deposited.

FRAMEWORK: Manufacture and Other Operations in Warehouse (No. 2) Regulations, 2019 (‘Scheme’) [Scheme]

The Scheme facilitates import of inputs and capital goods without payment of duty for manufacturing and other operations in a bonded manufacturing facility, for the purpose of exports. On the other hand, it allows deferral of import duty to the extent manufactured goods cleared in the domestic market.

This Scheme has been introduced vide Notification No. 69/2019 Customs (NT) read with Circular No. 34/2019 Cus. dated October 1, 2019.

### Diagram

**Outside India**
- **Supplier**: Customs duty deferment on raw materials and capital goods
- **Customer**: No Customs duty

**India**
- **Customer**: Customs duty payable on domestic sales equivalent to duty foregone on imported material
- **Customer**: GST payable on domestic sales
OBJECTIVES OF THE SCHEME

Eligibility to seek approval under the Scheme is not associated with the quantum of clearances for exports and domestic market

No geographical limitation for setting up of the units

Deferment of import duty and no interest liability would considerably improve the liquidity position

No investment threshold and no export obligations required to be fulfilled

Single application cum approval form with single point of approval

Procurement of GST compliant goods from the domestic market for the use in manufacture and other operations is permissible

India as Global Manufacturing Hub

The Scheme boosts the make in India initiative and promotes India as a global manufacturing hub

Foreign Direct Investment

Will provide a stimulus for the manufacturing sector which is heavily dependent upon imported inputs – thus encouraging FDI

Ease of Doing Business

The manufacturer can explore the demands in foreign and domestic market with no incremental investment. There is also no commitment involved.

Ideal for single manufacturing units

Single manufacturing units can explore opportunities in both foreign as well as domestic market through optimal capacity utilization

Eligibility?

- Person who has been granted a license for the establishment of a private bonded warehouse in terms of Private Warehouse Licensing Regulations, 2016; or

- Person who has applied for license for the establishment of private bonded warehouse along with the permission for undertaking manufacturing or other operations in the warehouse under Section 65 of the Customs Act

The person should be a citizen of India or an entity incorporated or registered in India

SALIENT FEATURES OF THE SCHEME

IMPLICATIONS ON VARIOUS TRANSACTIONS

Customs Duty (BCD & IGST) is deferred in case of import of capital goods as well as inputs/ raw materials at the time of import and storage in the bonded warehouse. Subsequently, the final implications on the same depending upon whether the same are cleared as such or used
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<th>Particulars</th>
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<td>DTA</td>
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<td>Raw Materials &amp; Other Inputs</td>
<td>Customs Duty and IGST payable</td>
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<td>Outside India</td>
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<td>Capital goods</td>
<td>Customs Duty and IGST payable. No depreciation is allowed</td>
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<td>Customs duty and IGST not payable</td>
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<td>Finished Goods</td>
<td>Customs duty on Raw Material + IGST on Finished Goods</td>
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<td>Customs duty and IGST not payable</td>
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**BENEFITS AND WAY FORWARD**

1. **Scheme is beneficial to manufacturers who procure goods from outside India**
2. **Better supply chain management for manufacturer with customers located in SEZ / EOU or in bonded warehouse**
3. **Cash Optimization by reduction in blockage of funds for payment of Customs duties and related compliance cost**
4. **Comparatively lesser cumbersome in respect of fulfilment of conditions related to export obligation, actual user condition or value addition**

CBIC has created a digital common application form to seek license under this Scheme and is available at dedicated webpage [https://www.investindia.gov.in/bonded-manufacturing](https://www.investindia.gov.in/bonded-manufacturing).

**ABOUT US**

Economic Laws Practice is a 19-year old firm with 6 offices throughout India. With 200+ qualified professionals – lawyers, chartered accountants, cost accountants, company secretaries and economists – we assist clients on transactional, advisory, litigation, regulatory, trade, competition and tax matters. Ranked amongst the top ten law firms in India (RSG Report 2019), ELP is recognized as a top tier firm by Chambers Global, Legal 500, IFLR 1000 and AsiaLaw Profiles.

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