

Webinar Questionnaire for ASEAN Region

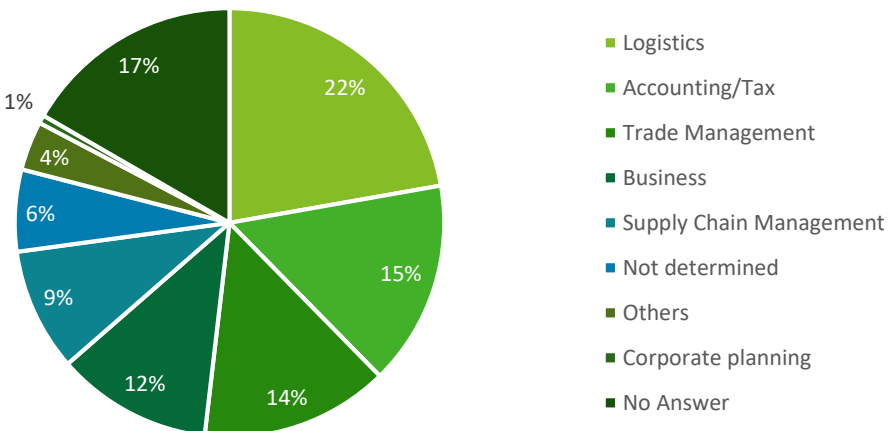
July 10, 2020

On June 16, Deloitte Japan cosponsored a "Current Tariff Management in ASEAN Region" webinar with Deloitte Singapore for our clients in the ASEAN region. A total of 211 companies (249 people) attended the webinar. The webinar covered a wide range of topics including: basic rules for determination of Customs duty, expected global trends of customs and customs duties due to the impact of COVID-19, actions to be taken by companies in response to changes to the customs enforcement in various countries, and an overview of Deloitte Japan's technology tools.

During the webinar, we asked participants to answer a questionnaire about tariffs and the level of concern participants have. The results are summarized below.

Results of Webinar Questionnaire

■ Q1: Which department is responsible for customs duties in your company?



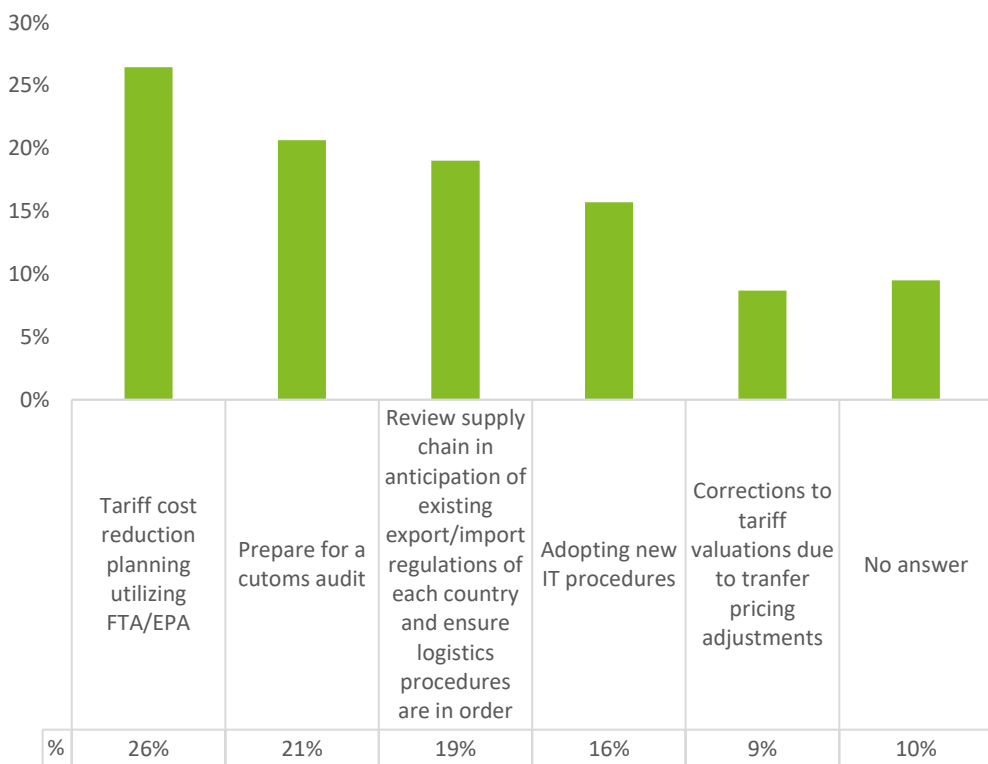
Answers to this question were divided. There is no correct answer to this question. However, it is necessary to identify which department is responsible for customs duties. Otherwise the same issues are likely to reoccur and the same mistakes will be made but the cause of the problems will not be identified. Many of the customs problems that participants have experienced resulted from a lack of understanding as to which department was responsible for customs duties within their company.

One of the main roles of the responsible department is to understand the financial impact that the tariff tax burden has on their company. However, when we asked the participants if they could quantify this cost 68% answered that they could not yet.

Based on these responses, it is reasonable to infer that there are not many companies that have internal departments which are capable of sufficiently managing tariffs. Furthermore, there are even fewer companies who have personnel in head office that are capable of managing their overseas subsidiaries' tariffs.

In order to implement comprehensive tariff management systems, it is preferable that the responsible department which can oversee the supply chain takes the lead to ensure management in all departments, including head office and overseas subsidiaries understand their respective roles in managing the group's tariffs. For example, implementing tariff management procedures, including conducting periodic health checks on overseas subsidiaries and reporting the result to head office. These processes will assist the group in achieving a robust tariff management system.

■ Q2: Based on the impact of COVID -19, what actions are you considering implementing and/or reviewing as tariff management plan (Multiple answers were allowed)?



While the business operations of many companies, have, and are still being affected by the impact of COVID-19, there are 2 ways in which customs duties can help companies improve their cash flow. (1) Companies can focus on further cost savings and efficiencies (aggressive response), (2) Companies can improve their customs compliance procedures (defensive response).

In this survey, the largest number of respondents answered that they are considering reducing tariff costs by making use of FTA/EPAs. This includes utilizing bonded facilities

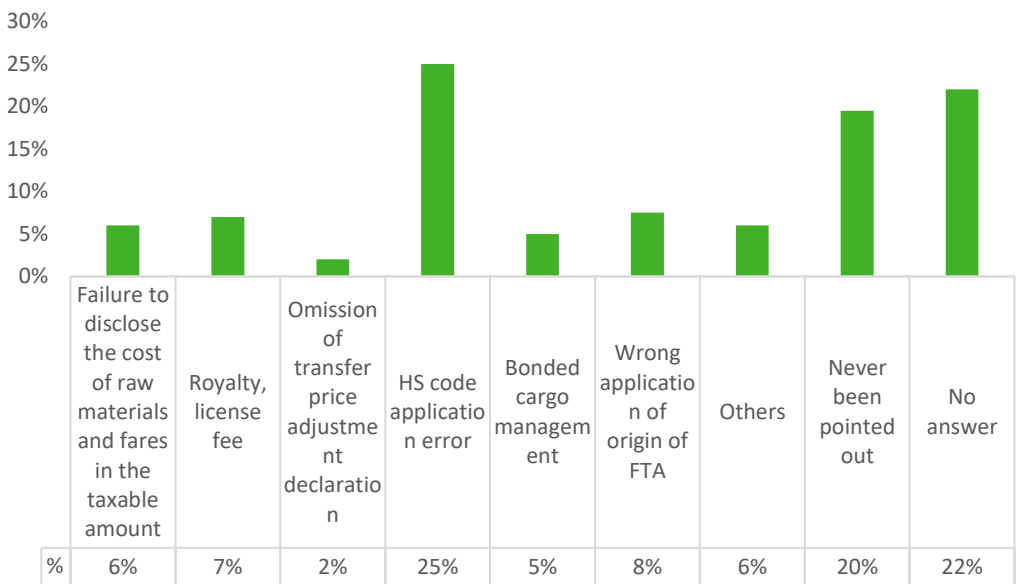
or and free trade zones. Under the system for tax payment by self-assessment, it won't start if it doesn't move. For those companies who have not made use of FTA/EPA's before, now is a good time to consider their future application.

Since tariffs are still a major source of tax revenue in many ASEAN countries, customs authorities in these countries tend to increase the number and enhance of customs audit to compensate for tax revenue shortfalls, such as in the global financial crisis. In light of this, the second most popular response to the question was that companies were preparing for stricter customs audit. If you are identified by customs at the timing of customs clearance, or if you make a mistake in your initial response to the post-entry examination, it will be very difficult to recover. Therefore, we strongly recommend that you prepare well in advance for the customs audit.

In addition, some companies responded that they would reconsider their supply chain in anticipation of the impact of COVID -19 lasting longer than expected, specifically, they would consider transitioning to IT and paperless systems in response to the work from home shift. The introduction of IT and paperless systems requires a bottom-up approach that includes the creation of policies and procedures, establishing systems and updating technology so that it supports the transition.

Please kindly note that the relationship between the transfer price and customs duties is explained in Q4.

■ Q3: During a customs audit what has a customs officer focused on (Multiple answers allowed)?



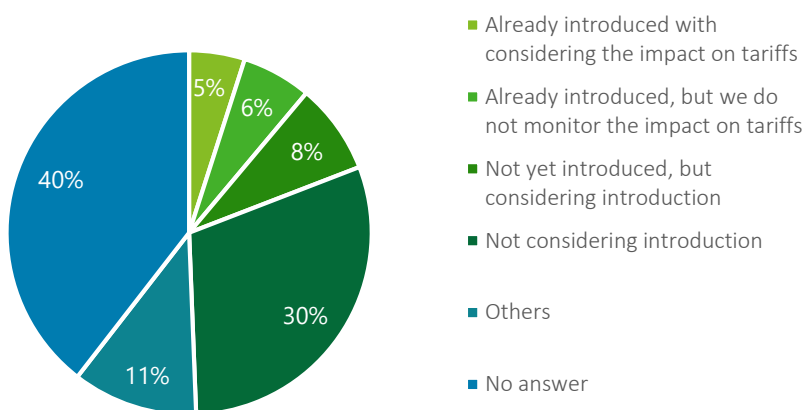
As illustrated by the graph, customs authorities in ASEAN countries such as Indonesia and Thailand tend to focus on the application of the HS Code in the customs audit. As such, it is very important for companies to apply the correct HS code, especially in these countries.

There is also a trend towards an increase in the number of companies which are pointed out the fail to declare royalties or cargo management error in the bonded or other specific area. We have also seen the cases which were bought up wrong application of the place of origin with respect to FTAs. The percentage of companies that have been pointed out these issues is still less than 10%. But it is gradually

increasing in recent years and if the responses prevent the company from obtaining a beneficial outcome, it will apply the past and affect future transactions. Not only may this result in an increase to the companies customs duties but it may also give big impact to the companies' whole management plan.

In addition, there are many companies that receive complaints from customs authorities because they have failed to declare the cost of imported raw materials or freight charges etc... These simple mistakes can be easily avoided by ensuring that the person responsible for preparing the declaration has a certain level of knowledge and good communication with related section. This highlights the importance of conducting in-house training and encouraging communication between departments to ensure that the correct information is disclosed to the customs authority, especially if a company wishes to minimize the impact of customs audit.

■ Q4: Does your company account for transfer price adjustments?



In this webinar, we explained the relationship between transfer price and customs duties. We also explained how to deal with any transfer pricing adjustments from a customs perspective and the impact that these changes may have on the customs value (Depending on the payment or receipt by the company in importing country, the tariff considerations differ.). As indicated by the results of the questionnaire, only a few companies have reported transfer price adjustments with considering the impact on customs duties. However, the impact of COVID -19 on companies' profitability is likely to increase the number of companies considering whether to introduce a transfer price adjustment in the future and it is quite important for them to make some action to the Customs in response to the impact on the customs value. We will continue to provide information on the relationship between transfer prices and tariffs at webinars and other opportunities.

Summary

The key take away points from the webinar are:

1. Ensure the relevant department has a thorough understanding of the current situation (Understand current tariff costs and risks)
2. Review ways in which managing your customs duties may be able to assist with cash flow

3. Establish a robust compliance system and acquire the proper tools to implement it

Implementation of any of the above measures will assist in improving a companies' customs compliance. If you are questioned by customs at the time of customs clearance, how you respond will directly affect the result of the Customs audit. Finally, these measure by HQ will assist overseas subsidiaries in dealing with their own customs issues.

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