China to open up its import tariff and importation policies for consumer products

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In brief

China has been gradually opening up its import tariff and importation policies for commodities in recent years. A number of pilot policies have achieved remarkable results, bringing unprecedented opportunities to the retail and consumer industry. In this Article, we summarise the new policies and measures to provide our observations on the impacts and recommendations to industry players. The new policies and measures include:

- Reduction of tariff rates and consumption tax reform
- Establishment of more tax refund shops for overseas tourists
- Promotion of cross-border e-commerce B2C and O2O businesses
- Promulgation of four pilot free trade zones to advocate trial policies
- Adoption of more user-friendly customs declaration and commodity examination procedures

In detail

In the recent State Council executive meeting chaired by Premier Li Keqiang, Li urged relevant authorities to formulate detailed policies relating to importation and exportation of consumption products so as to enrich the choices for domestic consumers and further boost domestic demand. Specifically, the policies for reduced import customs duty rate on a pilot basis and expanded scope of commodities enjoying reduced tariff will be promulgated by the end of June this year.

The State will also improve current consumption tax policy to set in line with the national tax reform. The reform will mainly focus on consumer goods, such as clothing and cosmetic products. The detailed policies on the consumption tax reform, including taxable scope, applicable tax rates, etc. will be released after the study by relevant authorities.

Concurrent to the gradual opening up of import tariff and importation policies by China in recent years, a number of the pilot policies have already achieved remarkable results. These changes reaffirm the recent reform keynote of Premier Li at the State Council. Our observations and analysis for industry players are as follows:

Import customs duty

China fulfilled its commitment to lower customs duty in 2010. According to the General Administration of Customs (“GAC”), the duty rates for Most Favoured Nations (“MFN”) remain unchanged in 2015 with the average duty rate hovering at 9.8% (15.1% for agricultural products and 8.9% for industrial products). From time to time, the GAC would announce short-term measures to facilitate the growth of foreign trade and encourage industrial development. For instance, temporary import customs duty rates for four categories of commodities were reduced at the beginning of 2015. They include drugs and general consumer products closely related to daily living (such as lipid-lowering drug, macadamia nuts, single lens reflex digital cameras, etc.); advanced technology and equipment, key spare parts and basic raw materials; environmental protection technology and equipment; and energy-saving products.
**Consumption tax**

Currently consumption tax is levied on a selective basis on luxury products and specific behavioural consumption, including various kinds of alcohol and tobacco; cosmetics; golf equipment; precious jewellery and jade jewellery; luxury watches; yachts; motorcycles and cars, etc. Other daily consumption products such as clothing and shoes; food products and drinks; electronic products, etc., are not subject to consumption tax.

According to “Overall Plan for Further Fiscal and Tax Reform” reviewed and approved in the CPC Central Committee Political Bureau meeting last year, one of the measures in the Plan to accelerate the pace of reform of the national finance and tax regime is to gradually improve the consumption tax system, which includes adjusting the taxable scope; optimising tax rate structure; improving tax collection process; and enhancing adjustment function of consumption tax. It is anticipated that this consumption tax reform will substantially reduce the tax rate or even abolish consumption tax for certain commodities having a close bearing on people’s livelihood. On the other hand, consumption tax or environmental tax would be imposed for high pollution and high energy consumption products.

However, the current import tariffs in China for certain commodities are still relatively higher than those of adjacent countries. Taking the importation of cosmetics as an example, the import tariffs in China include import customs duty of 6.5%-15% (assuming the MFN rates are applicable), import consumption tax of 30% and import value-added tax (“VAT”) of 17%. In Singapore and Japan, the importation is only subject to 7% import consumption tax and 8% import sales tax respectively; while there is no import tariff at all in the US. Therefore, the recent proposal to reduce import tariffs in China on certain consumer products would help to reduce spending on consumer goods by Chinese travelling overseas, boost domestic consumption and stabilise economic growth.

**Tax refund for overseas visitors**

Hainan Province has implemented VAT refund pilot programme since 2011. This programme allows overseas tourists (i.e. foreigners and compatriots from Hong Kong, Macau and Taiwan who stay in mainland China for not more than 183 consecutive days) buying goods from designated VAT refund shops to apply for VAT refund upon departure from designated departure port. Earlier in the year, the Ministry of Finance announced the roll-out of such programme to all parts of China and expansion of the scope of commodities eligible for VAT refund. Specifically, instead of having only 21 types of commodities eligible for VAT refund, now all kinds of commodities (except those listed as prohibited or restricted from exports) can enjoy VAT refund. In addition, the minimum threshold for goods enjoying VAT refund is lowered from RMB800 to RMB500. Currently, the VAT rate of goods purchased in China is generally 17% (already included in retail price). Overseas tourists will be able to apply for VAT refund at a rate of 11% for goods purchased in those specific regions in which such programmes are implemented. The State Administration of Taxation and GAC will introduce details of the programme very soon. To plan ahead for retail strategies for tourists, retail market players should keep a close eye on the policy developments, including list of locations qualifying for the VAT refund program, the implementation date and specific conditions for registration as a VAT refund shop.

**Development of cross-border e-commerce**

China has been providing great support on the development of cross-border e-commerce in recent years. According to the Customs statistics, the trade volume (including imports and exports) for cross-border e-commerce in pilot cities exceeded RMB9 billion last year and there presents a huge potential for further development. Since 2013, Shanghai, Hangzhou, Ningbo, Zhengzhou, Guangzhou, Chongqing and subsequently Shenzhen have been selected as the pilot cities to implement bonded importation for cross-border online shopping. Under the principle of “for personal use and at reasonable quantity”, mainland consumers can easily complete the customs clearance and tax settlement processes for imported goods purchased online in the pilot cities. Specifically, the actual purchase price on electronic invoice can be used as dutiable value and the respective customs duty can be computed by reference to “postal tax” rate. Transaction with customs duty payable of RMB50 or below can be exempted.

Through the use of composite postal tax rate for online bonded imports, the import tax cost is greatly reduced for the majority of high-demand goods imported by mainland consumers. For example, postal tax rates are only 10% for food products and drinks (including milk products), leather clothing and accessories, and jewelry and collectibles; 20% for ordinary watches, textiles and relevant finished goods, and household appliances; 30% for high class watches; and 50% for cosmetics, tobacco and alcohol respectively. These kind of new import measures will increase the attraction of the above products to consumers, and hence further encourage cross-border e-commerce. As a result, many cities in Mainland China are applying to be a pilot city for the bonded importation model. Foreign importers can benefit from this new operational model in different ways, such as, a new channel to directly reach the China market; reduction of costs and risks pertaining to establishing a company in China, leasing retail stores, hiring sales staff and storing inventory while at the same time optimising price competitiveness. In addition, foreign importers can better manage their brands and service quality so as to combat fake and smuggled goods. However, foreign retail enterprises have to pay attention to the operating cost arising from the various handling fees payable to online platform providers and the logistics arrangements, etc.
China enterprises’ brand building and export competitiveness

Meanwhile, China also encourages domestic enterprises to strengthen their brand building and export competitiveness. The implementation of export tax policies for cross-border e-commerce last year facilitated the VAT and consumption tax refund application for domestic exporters engaged in e-commerce business. Although this new refund application measure has not yet been widely adopted by mainland enterprises, with the improvement of the measure and the accumulated implementation experience, it is expected that such measure would help companies having manufacturing facilities in China to reduce their cost pressure, develop O2O business, and enhance the competitiveness for exports.

Cross-border trade and supply chain management optimization

In addition, a series of regulatory and related reform measures have been published and implemented by GAC in recent years to promote China’s cross border trade and optimise companies’ supply chain management. For instance, the new customs, inspection and quarantine (“CIQ”) enterprise credit management system allows high compliant ranking importers/exporters to reduce customs clearance lead time and minimise “hidden costs” in the supply-chain, as well as to enjoy various non-tariff trade facilitation programmes offered under mutual recognition Authorized Economic Operators (AEO) scheme. Other key trade facilitation programmes include: paperless declaration (e-clearance); pre-declaration/inspection; and regional customs clearance integration which forms an integrated management mechanism and operational model that covers and unifies the customs clearance processes, such as the Yangtze River Economic Integration, Guangdong regionalisation and Beijing-Tianjin-Hebei regionalisation. These new policies and trade facilitation programmes, together with the reduction in import taxes, would have significant impact to companies conducting international trade business. Notwithstanding the above, as some of the non-tariff trade facilitation measures described above require application to the relevant authorities, companies should take a proactive approach to manage, seek and apply for the relevant international trade facilitation measures in order to achieve a competitive advantage over their competitors.

Pilot free trade zones (“FTZs”)

Last but not least, following the establishment of the Shanghai FTZ, Guangdong, Fujian and Tianjin have also recently announced the establishment of FTZs. Some of the pilot policies promulgated in these FTZs would definitely bring in new opportunities; for example, policy for liberalisation of trade in service among Guangdong, Hong Kong and Macao; further relaxation in the equity ratio for foreign companies investing in the online data processing and transaction processing business (i.e. e-commerce business); establishment of bonded trading platform in special customs supervision areas; and pilot run of parallel imports for automobiles, etc.

Conclusion

Multinational corporations and retail operators should:

1. Follow closely on policy developments in China and take advantages of opportunities to further expand their business in China; and

2. Timely adjust their production, sales and supply chain management strategies in China as well as in the region.

PwC’s Retail and Consumer Group tax specialists will monitor the latest policy development and further share with you our insights and recommendations.
Let’s talk

If you would like further advice or information in relation to the issues outlined above, please contact any of PwC’s Retail and Consumer tax specialists listed below:

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