

Tax Analysis

PRC Tax Indirect Tax Services

Authors:

Shanghai

Sarah Chin
Partner
Tel: +86 21 6141 1218
Email: sachin@deloitte.com.cn

Dolly Zhang
Assistant Manager
Tel: +86 21 6141 1113
Email: dozhang@deloitte.com.cn

For more information on the subject,
please contact:

Indirect Tax Services National Leader (Shanghai)

Sarah Chin
Partner
Tel: +86 21 6141 1218
Email: sachin@deloitte.com.cn

Northern Region Beijing

Andrew Zhu
Partner
Tel: +86 10 8520 7508
Email: andzhu@deloitte.com.cn

Eastern Region Shanghai

Gao Li Qun
Partner
Tel: +86 21 6141 1053
Email: ligao@deloitte.com.cn

Suzhou

Maria Liang
Partner
Tel: +86 512 6289 1328
Email: mliang@deloitte.com.cn

Tariff adjustment in 2011, what's next?

On 24 June 2011, the Customs Tariff Commission of the State Council announced that the import duty rate on certain products would be adjusted (Shui Wei Hui [2011] No. 12, hereinafter "Circular 12"). According to Circular 12, as from 1 July, the interim duty rates for 33 categories of products including oil will apply, which will effectively reduce the import duty rate of these products by an average of 5%. Despite recent speculation, the rates on medium and high-end products have not been changed.

Major changes to import duty rates

According to Circular 12, the interim duty rate¹ would apply to 33 categories of products as follows²:

Section	Content	2011 MFN duty rate	New interim duty rate
Vegetable products	Fresh or dried chestnuts;	25%	20%
	Fresh or dried ginkgo nuts		
Mineral products	Motor gasoline;	5-9%	0-1%
	Aviation gasoline;		
	Aviation kerosene;		
	Light diesel oil;		
Textiles and textile articles	Fuel oils No.5-7		
	Woven fabric of cotton;	10-12%	5-6%
	Multiple or cabled flax yarn		
	Tents;	14-16%	7-10%
	Pneumatic mattresses;		
Base metals and articles of base metal	Floor cloths, dish cloths;		
	Life jackets and life belts		
Base metals and articles of base metal	Nickel waste and scrap;	1.5-3%	1%
	Unwrought zinc		

¹ The Chinese government sets interim import duty rates on certain products to encourage imports. Hence, interim import duty rates are lower than Most Favored Nation duty rates. The interim import duty rates are generally valid for one year and are subject to government review, normally on an annual basis, but could be set and adjusted at any time during the year based on actual needs.

² Please refer to Circular 12 for detailed information (e.g. HS code).

Southern Region

Shenzhen

Jim Chung

Partner

Tel: +86 755 3332 1699

Email: jchung@deloitte.com.cn

Hong Kong SAR

Annie Lau

Director

Tel: +852 2852 5679

Email: annilau@deloitte.com.hk

Guangzhou

Yi Zhou

Partner

Tel: +86 20 2831 1228

Email: jchow@deloitte.com.cn

Janet Zhang

Director

Tel: +86 20 2831 1212

Email: jazhang@deloitte.com.cn

Section	Content	2011 MFN duty rate	New interim duty rate
Electrical machinery and equipment	Radar life detector	5%	2%
Optical, medical and surgical instruments and apparatus; and parts and accessories thereof	Photochromic lenses of glass; Other breathing appliances and gas masks	8%-20%	4-15%

Comments

Tariff policy plays an important role in the Chinese government's arsenal of tools to manage economic growth and international trade. Lowering the import duty rate on certain products, especially on basic energy products such as gasoline/kerosene, would help to eliminate the tax burden upon importation, leading to a possible reduction in end market price in China. On the other hand, by reducing the tariffs, the government is encouraging more domestic consumption in line with China's 12th Five-Year Plan.

What's next?

Before the above adjustments were made, a spokesman from the Ministry of Commerce said on 16 June that the government would reduce the tariffs on medium to high-end products. Since then, there have been some press reports that the government is considering a reduction on duty rates on luxury products in order to boost Chinese domestic consumption. Some speculate that the duty rates could be reduced by up to 15% and pilot products could be cosmetics, high-end wines and cigarettes, as well as watches, and that the change would take effect in October 2011. A downward adjustment in October is strategic as this would coincide with one of China's main holiday seasons where domestic spending is at its peak. There also have been reports that several government departments have been working together to analyze and draft policies on tariff cuts on medium to high-end products. Thus far, however, the news has not been officially confirmed by the government and there are no further details on the timeline and/or list of affected products. We believe that a cut on tariffs for medium to high-end products could be introduced gradually.

Our recommendations

As more adjustments are likely in the near future, affected companies should:

- Review any changes to the tariff codes of their products and the applicable duty rates to ensure compliance and try to identify potential tax saving opportunities; and
- Determine whether their import products are affected by the adjustments to the interim import duty rates.

Deloitte's experienced Indirect Tax team offers a suite of Indirect Tax services specifically designed to help your business manage Customs duties and VAT effectively.

For more information or advice on the policy changes and their impact on your business, please feel free to contact our Deloitte China Indirect Tax team.

Tax Analysis is published for the clients and professionals of the Hong Kong and Chinese Mainland offices of Deloitte Touche Tohmatsu. The contents are of a general nature only. Readers are advised to consult their tax advisors before acting on any information contained in this newsletter. For more information or advice on the above subject or analysis of other tax issues, please contact:

Beijing

Kevin Ng
Partner
Tel: +86 10 8520 7501
Fax: +86 10 8518 7501
Email: keving@deloitte.com.cn

Hong Kong SAR

Ryan Chang
Partner
Tel: +852 2852 6768
Fax: +852 2851 8005
Email: ryanchang@deloitte.com.hk

Shenzhen

Vincent Lo
Partner
Tel: +86 755 3332 1682
Fax: +86 755 8246 3222
Email: vinlo@deloitte.com.cn

Chongqing

Claude Gong
Partner
Tel: +86 23 6310 6206
Fax: +86 23 6310 6170
Email: clgong@deloitte.com.cn

Jinan

Vivian Jiang
Partner
Tel: +86 531 8518 1058
Fax: +86 531 8518 1068
Email: vivjiang@deloitte.com.cn

Suzhou

Frank Xu / Maria Liang
Partner
Tel: +86 512 6289 1318 / 1328
Fax: +86 512 6762 3338
Email: frakxu@deloitte.com.cn
mliang@deloitte.com.cn

Dalian

Frank Tang
Partner
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297
Email: ftang@deloitte.com.cn

Macau SAR

Quin Va
Partner
Tel: +853 8898 8833
Fax: +853 2871 3033
Email: quiva@deloitte.com.hk

Tianjin

Jason Wu
Partner
Tel: +86 22 2320 6680
Fax: +86 22 2320 6699
Email: jassu@deloitte.com.cn

Guangzhou

Yi Zhou
Partner
Tel: +86 20 2831 1228
Fax: +86 20 3888 0121
Email: jchow@deloitte.com.cn

Nanjing

Frank Xu
Partner
Tel: +86 25 5791 5208
Fax: +86 25 8691 8776
Email: frakxu@deloitte.com.cn

Wuhan

Justin Zhu
Partner
Tel: +86 27 8526 6618
Fax: +86 27 8526 7032
Email: juszhu@deloitte.com.cn

Hangzhou

Qiang Lu
Partner
Tel: +86 571 2811 1901
Fax: +86 571 2811 1904
Email: qilu@deloitte.com.cn

Shanghai

Vivian Jiang
Partner
Tel: +86 21 6141 1098
Fax: +86 21 6335 0003
Email: vivjiang@deloitte.com.cn

Xiamen

Lynch Jiang
Partner
Tel: +86 592 2107 298
Fax: +86 592 2107 259
Email: ljiang@deloitte.com.cn

About the Deloitte China National Tax Technical Centre

The Deloitte China National Tax Technical Centre ("NTC") was established in 2006 to continuously improve the quality of Deloitte China's tax services, to better serve the clients, and to help Deloitte China's tax team excel. The Deloitte China NTC prepares and publishes "Tax Analysis", "Tax News", etc. These publications include introduction and commentaries on newly issued tax legislations, regulations and circulars from technical perspectives. The Deloitte China NTC also conducts research studies and analysis and provides professional opinions on ambiguous and complex issues. For more information, please contact:

National Tax Technical Centre

E-mail: ntc@deloitte.com.cn

Eastern Region

Leonard Khaw
National Leader & Partner
Tel: +86 21 6141 1498
Fax: +86 21 6335 0003
Email: lkhaw@deloitte.com.cn

Northern Region

Angela Zhang
Partner
Tel: +86 10 8520 7526
Fax: +86 10 8518 1326
Email: angelazhang@deloitte.com.cn

Southern Region

Davy Yun
Partner
Tel: +852 2852 6538
Fax: +852 2520 6205
Email: dyun@deloitte.com.hk

If you prefer to receive future issues by soft copy or update us with your new correspondence details, please notify Wandy Luk by either email at wanluk@deloitte.com.hk or by fax to +852 2541 1911.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/cn/en/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 170,000 professionals are committed to becoming the standard of excellence.

In China, services are provided by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Limited and their subsidiaries and affiliates. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Limited are, together, a member firm of Deloitte Touche Tohmatsu Limited.

Deloitte China is one of the leading professional services providers in the Chinese Mainland, Hong Kong SAR and Macau SAR. We have over 8,000 people in 15 offices in Beijing, Chongqing, Dalian, Guangzhou, Hangzhou, Hong Kong, Jinan, Macau, Nanjing, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan and Xiamen.

As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting and financial advisory services to national, multinational and growth enterprise clients in China.

We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We also provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.