

Tax

Issue P250/2016 – 28 October 2016

Tax Analysis

Comprehensive Resource Tax Reform Kicked Off in China - Water Resource Tax Piloted in Hebei Province

Authors:

Beijing

Charles Gong

Partner

Tel: +86 10 8520 7527

Email: charlesgong@deloitte.com.cn

Tianjin

Chris Liu

Senior Manager

Tel: +86 22 2320 6651

Email: chrliu@deloitte.com.cn

Yu Song

Assistant Manager

Tel: +86 22 2320 6624

Email: yusong@deloitte.com.cn

A comprehensive reform of China's resource tax was launched on 1 July 2016 following the issuance of three circulars (Caishui [2016] No. 53, 54 and 55¹) by the Ministry of Finance and the State Administration of Taxation in May. As part of the reform, a water resource tax was introduced on a trial basis in Hebei province.

Originally introduced in 1984, the resource tax was levied on crude oil, natural gas, coal and other mineral resources. The resource tax regulations were further revised in 1993 and 2011. A reform piloted in Xinjiang in 2010 changed the tax base for resource tax purposes from the volume of sales to the sales price of resources (i.e. "price-based taxing method") for crude oil and natural gas. This price-based taxing method was expanded geographically and in scope in the recent years, and now applies nationwide for crude oil, natural gas, coal, rare earth, tungsten and molybdenum. However, the calculation of resource tax for other taxable resource products had still been based on the sales volume before 1 July 2016 when the comprehensive resource tax reform was launched.

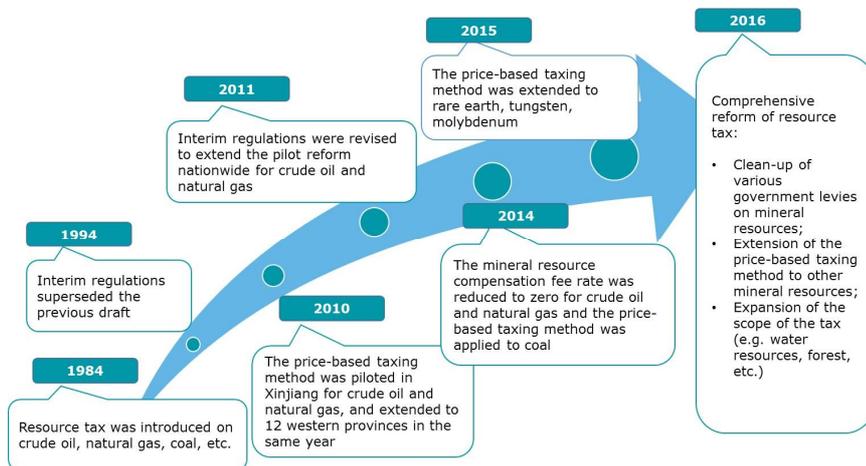
¹ Circular 55 was jointly issued with the Ministry of Water Resources.

See full text in Chinese of the circulars:

Circular 53 - http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201605/t20160510_1984605.html

Circular 54 - http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201605/t20160510_1984613.html

Circular 55 - http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201605/t20160510_1984619.html



Reform highlights

The comprehensive reform of the resource tax, launched on 1 July 2016, aims to create a fair and efficient tax regime, by eliminating duplicate charges and promoting economic development, the conservation of resources and protection of the environment.

The main features of the resource tax reform are as follows:

Clean-up of local government levies on mineral resources

The reform requires the central and local governments to carry out a review of all local levies on mineral resources, abolish any that are inconsistent with the objectives of the reform policy, and specifically to cease collecting two levies: the "mineral resource compensation fee"² and the "price adjustment fund" for all mineral resources.

Many local governments impose various levies on mineral resources in addition to the resource tax, which economically have the same or similar functions as the resource tax, resulting in a high tax burden for the mineral resource industry. The mandates to these governments under the reform should create a more equitable tax environment for the industry.

Price-based taxing method

As noted above, the calculation of resource tax for most taxable resource products previously was based on the volume of sales rather than the sale price of the resources. This mechanism has been criticized for failing to keep pace with fluctuations in the prices of resource products. The comprehensive reform rolls out the price-based taxing method to almost all taxable mineral resources. By changing the tax base from sales volume to sales price, the government intends for the resource tax to better serve as a tool for making adjustment to economic policies.

Expansion of tax scope

The reform will further expand the scope of the resource tax. Water resources (including both surface and ground water) are added to the scope of taxable resources, although taxability of water is first being trialled only in Hebei province. The government also is considering the further expansion of the scope of the resource tax to other natural resources such as forests, grasslands and mudflats. The local governments are allowed to design their own mechanisms to tax resources newly brought within the scope of the tax, although implementation must be approved by the State Council in advance.

For more information, please contact:

Indirect Tax Services

National Leader

Hong Kong

Sarah Chin

Partner

Tel: +852 2852 6440

Email: sachin@deloitte.com.hk

Northern China

Beijing

Yi Zhou

Partner

Tel: +86 10 8520 7512

Email: jchow@deloitte.com.cn

Eastern China

Shanghai

Liquan Gao

Partner

Tel: +86 21 6141 1053

Email: liqao@deloitte.com.cn

Southern China

Guangzhou

Janet Zhang

Partner

Tel: +86 20 2831 1212

Email: jazhang@deloitte.com.cn

Western China

Chongqing

Frank Tang

Partner

Tel: +86 23 8823 1208

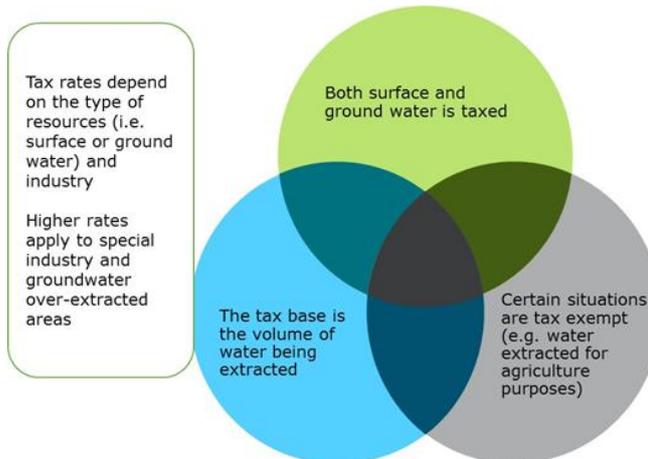
Email: ftang@deloitte.com.cn

² The collection of the mineral resource compensation fee was effectively stopped by reduction of the levy rate to zero.

Water resource tax trial in Hebei province

Under the pilot program, Hebei province is levying the resource tax on the surface water and groundwater as from 1 July 2016. Entities and individuals that directly extract water from natural bodies of water (e.g. rivers or lakes) or extract groundwater are taxpayers of the tax.

Previously, entities and individuals that extracted water from these sources were subject to a water resource fee, a government levy collected by the local government department responsible for water resources. The water resource fee no longer is imposed in Hebei, although the mechanism used to collect the fee continues to be used to collect the new water resource tax to ensure that the overall impact of the tax will be neutral. Unlike the water resource fee, however, the water resource tax is collected by the local tax authorities.



Higher tax rates are applied in the following situations to promote the conservation of water resources:

- Extraction of groundwater in over-extracted areas;
- Extraction of water resources by special industries (including car washes, bathing, management of golf courses or ski slopes); and
- Extraction of water resources where the volume of the water being extracted exceeds a specified quota (if applicable).

The following table illustrates some water resource tax rates applicable for city areas covered by the public water supply:

(Unit: RMB yuan/cubic meters)

		General area	Over-extracted area (for groundwater)	Seriously over-extracted area (for groundwater)
Surface water	General industries*	0.5		
	Special industries	10		
Ground water	General industries*	3	4.2	6
	Special industries	40	60	80

* "General industries" excludes agriculture and public water supply businesses.

To determine whether a specific area falls within the scope of the over-extracted or seriously over-extracted area where the extraction of groundwater would be subject to a higher tax rate, taxpayers must refer to a 2014 circular (Jizhengan [2014] No. 61) issued by the Hebei government; for example, most districts of Shijiazhuang, the capital of Hebei province, are seriously over-extracted areas and most urban areas of Tangshan are either over-extracted or seriously over-extracted areas.

The introduction of higher tax rates may increase costs for water-intensive industries, such as the following:

- Coal mining and coal washing
- Ferrous metal smelting and rolling processing
- Non-ferrous metal smelting and rolling processing
- Non-metal mining
- Non-metallic mineral products manufacturing
- Textiles
- Electricity, heat production and supply
- Paper product manufacturing
- Chemical raw materials and products manufacturing
- Petroleum processing, coking and nuclear fuel processing

Affected businesses should assess the impact of the water resource tax reform on their costs and take steps to alleviate the tax burden. Such steps may include developing new technologies or processes, or finding less expensive alternative resources to lower the demand for water; and relocating certain functions to avoid the application of higher tax rates.

Tax Analysis is published for the clients and professionals of the Hong Kong and Chinese Mainland offices of Deloitte China. 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

Andrew Zhu
Partner
Tel: +86 10 8520 7508
Fax: +86 10 8518 1326
Email: andzhu@deloitte.com.cn

Chengdu

Frank Tang / Tony Zhang
Partner
Tel: +86 28 6789 8188
Fax: +86 28 6500 5161
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Chongqing

Frank Tang / Tony Zhang
Partner
Tel: +86 23 8823 1208 / 1216
Fax: +86 23 8859 9188
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Dalian

Bill Bai
Partner
Tel: +86 411 8371 2816
Fax: +86 411 8360 3297
Email: billbai@deloitte.com.cn

Guangzhou

Victor Li
Partner
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121
Email: vicli@deloitte.com.cn

Hangzhou

Qiang Lu / Fei He
Partner / Director
Tel: +86 571 2811 1901
Fax: +86 571 2811 1904
Email: qilu@deloitte.com.cn
fhe@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

Email: ntc@deloitte.com.cn

National Leader

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

Southern China (Hong Kong)

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

Harbin

Jihou Xu
Partner
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056
Email: jihxu@deloitte.com.cn

Hong Kong

Sarah Chin
Partner
Tel: +852 2852 6440
Fax: +852 2520 6205
Email: sachin@deloitte.com.hk

Jinan

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

Macau

Raymond Tang
Partner
Tel: +853 2871 2998
Fax: +853 2871 3033
Email: raytang@deloitte.com.hk

Nanjing

Frank Xu / Rosemary Hu
Partner
Tel: +86 25 5791 5208 / 6129
Fax: +86 25 8691 8776
Email: frakxu@deloitte.com.cn
roshu@deloitte.com.cn

Shanghai

Eunice Kuo
Partner
Tel: +86 21 6141 1308
Fax: +86 21 6335 0003
Email: eunicekuo@deloitte.com.cn

Northern China

Julie Zhang
Partner
Tel: +86 10 8520 7511
Fax: +86 10 8518 1326
Email: juliezhang@deloitte.com.cn

Southern China (Mainland/Macau)

German Cheung
Director
Tel: +86 20 2831 1369
Fax: +86 20 3888 0121
Email: gercheung@deloitte.com.cn

Shenzhen

Victor Li
Partner
Tel: +86 755 3353 8113
Fax: +86 755 8246 3222
Email: vicli@deloitte.com.cn

Suzhou

Maria Liang / Kelly Guan
Partner
Tel: +86 512 6289 1328 / 1297
Fax: +86 512 6762 3338
Email: mliang@deloitte.com.cn
kguan@deloitte.com.cn

Tianjin

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

Wuhan

Justin Zhu / Gary Zhong
Partner
Tel: +86 27 8526 6618
Fax: +86 27 6885 0745
Email: juszhu@deloitte.com.cn
gzhong@deloitte.com.cn

Xiamen

Jim Chung / Charles Wu
Partner / Director
Tel: +86 592 2107 298 / 055
Fax: +86 592 2107 259
Email: jichung@deloitte.com.cn
chwu@deloitte.com.cn

Eastern China

Kevin Zhu
Director
Tel: +86 21 6141 1262
Fax: +86 21 6335 0003
Email: kzhu@deloitte.com.cn

Western China

Tony Zhang
Partner
Tel: +86 23 8823 1216
Fax: +86 23 8859 9188
Email: tonzhang@deloitte.com.cn

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 wanyluk@deloitte.com.hk or by fax to +852 2541 1911.

About Deloitte Global

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 225,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

About Deloitte in Greater China

We are one of the leading professional services providers with 24 offices in Beijing, Hong Kong, Shanghai, Taipei, Changsha, Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Harbin, Hefei, Hsinchu, Jinan, Kaohsiung, Macau, Nanjing, Shenzhen, Suzhou, Taichung, Tainan, Tianjin, Wuhan and Xiamen in Greater China. We have nearly 13,500 people working on a collaborative basis to serve clients, subject to local applicable laws.

About Deloitte China

The Deloitte brand first came to China in 1917 when a Deloitte office was opened in Shanghai. Now the Deloitte China network of firms, backed by the global Deloitte network, deliver a full range of audit, tax, consulting and financial advisory services to local, 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. To learn more about how Deloitte makes an impact that matters in the China marketplace, please connect with our Deloitte China social media platforms via www2.deloitte.com/cn/en/social-media.

This communication 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 communication, rendering professional advice or services. None of the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.