

Tax

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Tax Analysis

Tariff Adjustments for 2018 Announced

China's Tariff Commission of the State Council recently announced the tariff changes for 2018 (Circular 27). Following the reduction of import duty rates on certain consumer goods on 1 December 2017, Circular 27 further adjusts the import and export duty rates (notably, interim duty rates and preferential duty rates) and tariff codes. These adjustments may affect sectors such as energy, pharmaceuticals, manufacturing, information technology (IT), heavy industry, etc. The 2018 tariff policy reflects the government's objective to balance the international and the domestic market, protect resources in China, encourage the development and upgrading of domestic industries, and enhance the "One Belt One Road" initiative.

1. Import duty rates

a. Most Favored Nation (MFN) duty rates

In general, MFN rates remain relatively stable with no significant changes in 2018, although slight adjustments have been made to a few rates.

Beginning on 1 July 2018, China will launch the third-round of the MFN rate reduction on IT products covered by the Information Technology Agreement. The second-round rate reduction commenced on 1 July 2017 and the reduced rates will continue to apply throughout the first half of 2018.

b. Interim duty rates

Interim duty rates are used as a mechanism to regulate and adjust trade and the economy. Interim duty rates generally are adjusted annually near the end of a calendar year, although the government may make adjustments mid-year.

The interim import duty rate of an HS code generally is lower than its MFN duty rate. The purpose of interim duty rates is to support

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China's innovation-driven development and supply-side structural reform. In 2018, interim duty rates will be applicable to 948 HS codes as compared to 822 in 2017. To encourage the import of equipment with advanced technology, key parts and raw materials in energy industries, interim duty rates are newly introduced for certain goods (e.g. flat panel detector for digital radiography).

To adapt to changes in the supply and demand of goods in both the domestic and international markets and to address environmental concerns, the interim duty rates on certain solid waste products (e.g. waste magnesium brick, scrap steel slag and waste slag) have been eliminated. As a result, the MFN rates will apply to the import of these goods.

The interim duty rates for certain IT products will be adjusted as part of the third-round MFN rate reductions.

c. Preferential duty rates

The development the "One Belt One Road" initiative has led China to sign bilateral or multilateral free trade agreements (FTAs) with 26 countries and regions. Preferential duty rates under FTAs generally are more favorable than MFN rates, and are applicable to goods originating from countries or regions that have active FTAs with China. For example:

FTA	Status
China-Georgia FTA	Applies as from 2018
China FTAs with ASEAN, Australia, Costa Rica, Iceland, Korea (ROK), New Zealand, Pakistan, Peru and Switzerland	Further reduction of preferential duty rates
China FTAs with Chile and Singapore; the third round of duty reduction arrangements under the Asia-Pacific Trade Agreement; and the ECFA (Economic Cooperation Framework Agreement) between the Mainland and Taiwan	Unchanged
Mainland China-Hong Kong/Macao CEPA (Closer Economic Partnership Arrangement)	Scope of goods subject to zero rate expanded

2. Export duty rates

The establishment and adjustment of export duty rates is connected to the supply situation of the relevant goods in the domestic market. Export duty commonly is levied on goods that are high energy-consuming or high polluting or are resources that the government wants to remain in China.

In 2018, goods under 202 HS codes are subject to export duty or interim export duty. Interim export duty is applicable to goods under about 170 HS codes. Certain goods (e.g. benzene, copper zinc alloy silk and zinc alloy) are subject to interim export duty, but at a zero rate.

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The export duty for some goods has been eliminated or reduced for 2018; for example, the export duty on certain steel and chlorite has been removed, and the rate reduced on three-nutrient compound fertilizer, apatite, coal tar, wood chips, silicon ferrochrome and billet.

3. Import and export tariff codes

China's customs import and export tariffs are developed based on the Harmonized System (HS) issued by the World Customs Organization. The tariffs are adjusted annually to ensure that China is in line with international trade and to reflect practices of the Chinese customs authorities. In 2018, the number of import and export tariff codes increased to 8,549 from 8,547 in 2017 (nine items were removed and 11 items added).

Comments

The ongoing changes to national macroeconomic regulations and control policies has been accompanied by more frequent use of different import and export tax policies to facilitate the upgrading of industries and encourage competition. Affected enterprises should monitor future changes to customs laws and regulations and take steps to proactively address any potential adverse consequences.

The year 2018 is crucial for the implementation of China's "13th Five-Year Plan," and the State Council and other authorities have further clarified strategic development trends for all industries. Enterprises that have business plans that are in line with the direction of national policies could consider communicating directly with relevant authorities, such as General Administration of Customs and Ministry of Finance, to voice their needs relating to changes to certain policies (e.g. lower duty rates or consumption tax rates, etc.) to enhance their competitiveness.

Customs clearance integration was implemented nationally on 1 July 2017, and three Regional Tax Management Centers were established in Shanghai, Beijing-Tianjin and Guangzhou. Each center manages certain chapters of HS classifications in China, and will step up the examination of imports to ensure the accuracy of declarations, including HS classifications. Despite the minor changes made to the customs import and export tariffs in 2018, enterprises should keep in mind that HS classification is the basis for determining import and export duty rates, and, therefore, they should ensure that their internal HS classification systems are up to date and take advantage of the advance ruling process to help mitigate compliance risks relating to HS classification.

The ongoing development of the "One Belt One Road" initiative is one reason China has been actively concluding and negotiating bilateral and multilateral FTAs. Enterprises should review their supply chains and logistics with a view to being able to obtain duty benefits under the relevant existing and anticipated new FTAs.

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