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Consulting Group

China Business Advisory

2018 Issue 10 October 2018

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China Lowers its Overall Tariff Level

On 30th September 2018, the Tariff Commission of the State Council issued an Announcement (No. 64 of 2018) for lowering most-favored-nation ("MFN") import tariff rate on 1,585 products, which will be implemented from 1st November 2018. Tariff reduction measures implemented so far have estimated impact to lower the tax burden of enterprises and consumers by nearly RMB60 billion (USD8.7 billion) in 2018 and China's overall tariff level cut down to 7.5% from 9.8% in 2017.

- Below is a brief summary of China's tariff reductions measures implemented in 2018:

  1. Lowered drug tariffs from 1st May 2018. Reduced import tariff of all general drugs, 28 items of which, including anti-cancer drugs, alkaloid drugs with anticancer effect, and certain Chinese patent medicine, became zero-tariff. At the same time, lowered the Value-added Tax ("VAT") burden of anti-cancer drugs for both production and import.
  2. Lowered tariff on 218 items of car and parts import from 1st July 2018
  3. Lowered tariff on 1,449 items of consumer goods from 1st July 2018.
  4. Lowered tariff on 1,585 items from 1st November 2018, including mechanical and electrical equipment, parts and raw materials and other industrial products.

- Details of the tariff reductions pursuant to Announcement No. 64 [2018] are as follow:

Category	Applicable Products	Number of Items	Current Average Import Rate	New Average Import Rate
Imported goods with comparable domestic production capacity and level	Textiles and construction materials, base metal products, steel, etc.	677	11.5%	8.4%
Certain imported mechanical and electrical equipment	Textile, light industry, engineering, general, metal processing and power machinery, agricultural machinery, transmission and transformation equipment, electrical equipment, instrumentation and related equipment parts, etc.	396	12.2%	8.8%。
Certain imported resource commodities and primary products	Non-metal mineral, inorganic chemicals, wood and paper products, precious jade, etc.	390	6.6%	5.4%
Goods conducive to trade facilitation	Integration of the tax rates of some similar goods, and reduction of tax rate scales	122	12.3%	8.5%
Total		**1,585**	**10.5%**	**7.8%**

The tariff reduction involved 1,585 products, the average tariff rate reduced from 10.5% to 7.8%, with an average reduction of about 26%. Announcement No.64 [2018] was aimed to meet the demand of companies to upgrade production and lower costs, and to help fulfill the public's diversified consumption preferences.

On 30th September 2018, the Tariff Commission of the State Council also issued another announcement, No. 49 of 2018, to reduce the integrated import tax rates for luggage and postal items. The adjustment will be implemented on 1st November 2018, the major changes include:

1. The rate of drug shall be reduced to 15% from 30%. As for anti-cancer drugs, which are levied at a reduced VAT rate of 3% according to national regulations, shall be taxed at the rate of goods since the import tariff is reduced to zero.
2. The integrated import tax rates of item 2 and 3 in the table below are adjusted from 30% and 60% to 25% and 50% respectively.

After adjustment, the applicable tax rates of the three categories are 15%, 25% and 50% respectively. The details are listed as below:

Item	Item Name	Tax Rate
1	Video materials for books, newspapers, education；Information technology products such as computer, video camera, digital camera, etc. food and beverage; gold and silver; furniture; toys, games, festivals or other entertainment products; drugs	15%
2	Sporting goods (excluding golf and golf equipment), fishing supplies; textiles and their manufactured goods; television cameras and other electrical appliances; bike; other goods not included in items 1 and 3.	25%
3	Cigarette, Wine; valuable jewelry and jewel; golf and golf equipment; high-end watches; high-end cosmetics.	50%

Since the average MFN tariff rate drops to 7.5%, China now has a lower average tariff level than many developed economies, but slightly higher than the EU. The reduction of tariff will also bring pressure and challenges to the relevant industries in China, which requires related enterprises to actively respond, speed up transformation and upgrading, improve quality and efficiency and meet the challenges with innovative development and constantly improving their competitiveness.

Further Extension of Super Deduction of R&D Expenses

On 20th September 2018, Ministry of Finance ("MOF"), State Administration of Taxation ("SAT") and Ministry of Technology ("MOT") jointly issued a circular, Caishui [2018] No. 99 ("The Circular"). The Circular extended super deduction of Research and Development ("R&D") expenses from small and medium-sized scientific and technological enterprises to all enterprises aiming to promote R&D investment and technological innovation.

The key points are as follows:

1. For intangible assets that are yet to fulfill the recognition criteria, the additional deduction shall be 75% of the actual expenses incurred during 1st January 2018 to 31st December 2020.
2. For intangible assets that have fulfilled the recognition criteria, they shall be amortized at 175% of the cost of intangible assets during 1st January 2018 to 31st December 2020.

According to preliminary estimate, the new rules will result in annual tax reduction amounting to about RMB65 billion. It is believed to be conducive to market vitality and investment in R&D activities, especially for enterprises with high R&D expenditures. In order to enjoy the tax benefits brought by the Circular, it is necessary for the enterprise to prepare proper accounts and documents, which need to be submitted to tax authorities for review.

China Expands Withholding Tax Suspension of Direct Reinvestment of Profit

On 29th September 2018, MOF, SAT, National Development and Reform Commission (“NDRC”), and Ministry of Commerce (“MOC”) jointly issued Caishui [2018] No.102 (“Notice 102”), which expands the scope of withholding tax suspension policy for foreign investors in direct reinvestment of profit in China from “Encouraged Industries” to “Non-prohibited Industries”. That is to say, all foreign-invested enterprises other than those are in “Prohibited Industries" can enjoy this preferential policy. “Prohibited Industries" are industries listed as prohibited for foreign investment under the Catalogue for the Guidance of Foreign Investment Industries and the Catalogue of Priority Industries for Foreign Investment in the Central-Western Region. Both of these catalogues were updated in 2017.

The notice came into force retroactively from 1st January 2018. The other contents of Notice 102 basically are the same as Caishui [2017] No.88 which has been covered in our China Business Advisory of January 2018.

Service Highlight

The rapid pace of economic growth in China presents more and more opportunities for foreign investment. But the fast pace of tax reform, combined with some inconsistent local practice and enforcement, makes certain practical issues. So it is necessary to enlist the help of experienced consultants like Sino-Bridge who has a deep understanding of China's complex tax environments, as well as in-depth knowledge. We focus on helping foreign-invested companies with various services. Our Marketing Executive, Ms. Rika Wong, would like to hear from you at (852) 3579 8745 or Rikawong@sinobridge-consulting.com to learn of how we could assist you with your business.

Our China Investment Business Advisory Team

Hong Kong
Room 2301-02, 23/F, Prosperity Center,
25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong

Guangzhou
Room 16A02, 16/F, Vili International, 167 Linhexi Road, Tianhe District, Guangzhou, 510620, PRC

Shanghai
Room 30A, 30/F, World Plaza, No.855, South Pudong Road, Pudong New Area, Shanghai, PRC 200120

Lyon Odiceo
115 Boulevard Stalingrad – BP52038,
69616 Villeurbanne Cedex, France

Website: www.sinobridge-consulting.com
E-mail: info@sinobridge-consulting.com
Telephone: (852) 3579 8745