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PRC Tax

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China Tariff Policy for 2015 Announced

The Tariff Commission of the State Council issued a circular (Shuiweihui [2014] No. 32) on 12 December 2014 that sets out China's tariff policy for 2015. The circular, which applies as from 1 January 2015, adjusts import and export tariffs levied on certain goods; the main changes are to interim duty rates and conventional duty rates, and revisions to import and export tariff codes. The 2015 Tariff Policy reflects the government's intention to balance the economy and the policy brings both opportunities and challenges for affected industries.

Major changes

1. Interim duty rate

The government sets interim import and export duty rates to encourage imports or restrict exports of certain products. Interim duty announcements usually are made at year end, although they sometimes are set or adjusted during the year, if necessary.

a. Interim export duty

For 2015, the export duty and the interim export duty are applicable to 343 export commodities. Compared with 2014:

- Certain energy and resource commodities (e.g. coal, zinc) remain subject to interim export duty rates, although rates for certain export commodities (e.g. fertilizer, coal), have been adjusted.

- Further (beneficial) changes are possible in the near future, probably for energy and resource commodities, such as rare earth and base metals. Although no adjustment is announced in this circular, the interim export duty for rare earth is still expected to be adjusted in 2015 due to the international trade dispute.

b. Interim import duty

For 2015, the interim import duty is applicable to 749 import commodities. Interim duty rates generally are lower than most favored nation (MFN) duty rates. Compared with 2014:

- There are 19 new items subject to interim import duty and the rates for 12 items are decreased to encourage the import of certain commodities:

Examples of commodities	Policy objective
Automatic welders for copper wire (new)	Encourage the import of equipment and parts required in certain advanced manufacturing industries (e.g. semiconductor manufacturing)
Electronic vehicle motor controllers (new)	Encourage domestic consumption of environmentally friendly vehicles
Macadamia nuts, pecans and pharmaceuticals (Lipitor) (new)	Encourage domestic consumption and improve health and wellbeing

- 33 items are removed and interim import duty rates for five items are increased to promote manufacturing in China:
  - Compressor for freezing (removed);
  - Image pick-up modules for digital cameras (duty rate increased); and
  - Certain items with small import trade volume (removed).

2. Conventional duty rates

Conventional duty rates, which generally are more favorable than MFN duty rates, are applicable to commodities originating from countries or regions that have concluded a free trade agreement (FTA) with China.

- FTAs with Iceland and Switzerland entered into effect in 2014, bringing China's total number of FTAs to 13.[1] Many commodities under these new FTAs are granted conventional duty rates in 2015.

- China has completed substantial negotiations for FTAs with Australia and Korea, with the FTAs expected to take effect in 2015.

3. Revisions to import and export tariff codes

The government generally adjusts import and export tariff codes at the end of the year. To adapt the development of the economy and society, improve the supervision of imports and exports, and address international trade requirements, several new items are added to the 2015 tariff codes, such as gulfweed, air compressors and synthetic rubber, as a result of which the number of import and export tariff codes for 2015 will increase from 8,277 to 8,285.

Recommendations

- As noted above, interim export duty rates are expected to be further adjusted in 2015 for specific commodities, so companies in affected industries should closely monitor developments and take steps to prepare for potential financial impacts and the need to make changes to pricing/tax-related contractual arrangements.

- Certain industries that are encouraged under the national policy may want to consider recommending to the government that interim rates be applied in their sectors. There are several approaches to achieve this, including entering into dialogues with the Ministry of Finance and the General Administration of China Customs. The national policy for industrial development and import matters is set in the Five-Year Plan, and we have helped clients in several industry sectors to formulate a business case and obtain preferential interim duty rates.

- Companies engaged in import and export activities should revisit the adopted classification in a timely manner and apply for customs pre-classification, where necessary, to manage risks of noncompliance with Customs requirements, since the annual adjustments to the tariff codes may affect companies' current classification of import/export commodities.

- Companies also should monitor the conventional duty rates under FTAs and review their supply chain to identify opportunities to enjoy more preferential duty rates.

For more information or advice on the policy changes and the potential impact on your business, please feel free to contact Deloitte Customs & Global Trade service team.

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[1] China has FTAs with ASEAN, Chile, Costa Rica, Iceland, New Zealand, Pakistan, Peru, Singapore, Switzerland and the Asia-Pacific Trade Agreement. Commodities originating from Hong Kong and Macau with specified preferential origin standards continue to enjoy a zero duty upon import into Mainland China. Certain commodities originating from Taiwan continue to benefit from the conventional duty rates agreed in the Early Harvest Plan under the Cross-Strait Economic Cooperation Framework Agreement.

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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:

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