CHINA TAX ALERT

ISSUE 2 I January 2016

Notice on Adjusting Catalogues and Provisions concerning Import Duty Policies for Major Technical Equipment

Notice on Adjusting Catalogues and Provisions concerning Import Duty Policies for Major Technical Equipment Cai Guan Shui [2015] No.51

Issued by Ministry of Finance, National Development and Reform Commission, Ministry of Industry and Information Technology, General Administration of Customs, State Administration of Taxation, and National Energy Administration on 1 December 2015

Overview

On 1 December 2015, the Ministry of Finance, National Development and Reform Commission, Ministry of Industry and Information Technology, General Administration of Customs, State Administration of Taxation, and National Energy Administration jointly issued the Notice on Adjusting Catalogues and Provisions concerning Import Duty Policies for Major Technical Equipment (Cai Guan Shui [2015] No.51), which aimed to adjust the import duty policies for major technical equipment. The biggest changes are the adjustment of product catalogues set out in the Notice on Adjusting the Import Duty Policies for Major Technical Equipment (Cai Guan Shui [2014] No. 2). Manufacturers of major technical equipment supported by the state, domestic investment projects, foreign investment projects, R&D centres and technological transformation projects may refer to the requirements set out in the Notice and the catalogue list in the appendix, so as to make arrangements for equipment import during the transitional period, and prepare for tax break applications for the import under the new policies.

Background

In order to implement the relevant decisions of the State Council on the planning for revitalising the equipment manufacturing industry, improve the core competitiveness and independent innovation abilities of China's equipment manufacturing industry, accelerate the adjustment and upgrading of industrial structure, and promote the sustainable development of national economy, the Ministry of Finance and other ministries jointly issued (and adjusted) the import duty policies for revitalising the equipment manufacturing industry in 2007, 2009, 2012, 2013 and 2014 respectively. The adjustments in the Notice are designed in light of the development of the domestic equipment manufacturing industry and supporting industries in recent years and on the basis of extensive solicitation of opinions from competent industrial departments, industry associations, and the relevant enterprises. The issuance of the Notice represents China's continued policy support for the equipment manufacturing industry, and the industry development trend supported by the government.

Main contents and KPMG's interpretation

1. The Catalogue of State-supported Major Technical Equipment and Products and the Catalogue of Imported Key Components and Raw Materials of Major Technical Equipment and Products are revised.
   Equipment and products with domestic and well-established technologies are deleted. Equipment and products in line with international new technologies are added. More requirements are added on production capacity, production value, and power of some products. Many revisions are focused on the energy metallurgical industry, infrastructure industry, agriculture industry and

electronic information and bio-medical industries. The energy metallurgical industry has added equipment that employs new energy technology such as underwater oil extraction equipment; the infrastructure and agriculture industries have deleted some equipment that are no longer classified as advanced, and have put forward higher requirements for the equipment; the electronic information and bio-medical industries have removed the tax break for production equipment with relatively mature domestic production technology such as lithium battery and TFT-LCD screen, and have provided tax break for production and processing equipment such as precision optical equipment and electronic chips.

2. The Catalogue of Major Technical Equipment and Products Not Entitled to Free Import Duty is revised:
   Equipment in eleven categories are added including centrifugal compressor used for natural gas liquefying with annual output ≤3.5 million tonnes, well cementing equipment with maximum output pressure <70MPa, compressor unit used by MTO equipment, rail milling trucks, concrete pump truck, hot isostatic press, cold isostatic press, spandex winder, spun-melt composite nonwoven fabric spinning draw machine, hydraulic continuously variable transmission or HST below 56cc, and glue sprayer with lower homogeneity.

3. Appendix I of the Provisions on Import Duty Policies for Major Technical Equipment (Cai Guan Shui [2014] No.2) is revised:

   (1) Article 6 has added the following: "The competent industry and information technology department at provincial level shall then summarise and report the application documents to the Ministry of Industry and Information Technology before December 5 of each year" in order to regulate the time to report and submit the application documents by the competent industry and information technology department at provincial level.

   (2) Article 7 has deleted the requirement that "provincial industry and technology information authorities should conduct preliminary review on the application materials by working Customs Office where enterprises are located and local financial supervisory commissioner of the Ministry of Finance; it also states clearly that the review of applications should be carried out by central ministries, clarifies application approval responsibilities, and simplifies application approval processes.

   (3) In Article 8, "import demands of key parts and raw materials" has been changed to "import demands", indicating that the authorities will take into account a range of factors when reviewing enterprises' import demands. In addition, the Notice requires the Ministry of Industry and Information Technology, National Development and Reform Commission and National Energy Administration to submit the recognition results on qualification of project owners and the verification of relevant factors to the Ministry of Finance prior to 31 December of each year instead of 1 March of each year.

KPMG's observations

1. The Notice came into effect on 1 January 2016. For projects that have been approved under the old regulations, there is a 6-month transition period and enterprises can still import relevant equipment duty-free under the old regulations. Enterprises concerned should pay particular attention to the arrangements for the transition period, improve communication with foreign suppliers, and make better plan for future import demands so as to enjoy tax breaks.

2. Enterprises and projects that import a large amount of equipment (Manufacturers of major technical equipment, domestic investment projects, foreign investment projects, R&D centres and technological transformation projects) can perform an overall assessment and prepare relevant application materials based on various rules that are in effect and the non-duty free catalogue list. In particular, the Notice also further clarifies the application process and the material submission requirements. Enterprises should carefully study the new rules in order to submit applications in time and enjoy the preferential policies.

3. Because China's equipment import tax break policies are relatively complex, enterprises that import equipment and its accessories can perform a

systematic review of China's existing tax break policies and assess whether there is a possibility to enjoy import tax breaks and there is a need to consult professional firms.

4. Duty-free import of equipment / accessories are classified as goods under customs supervision, with a customs supervision period of 5 - 8 years. Within the customs supervision period, the goods entitled to tax breaks shall not be transferred, mortgaged, pledged, used for any other purpose, or disposed of otherwise without approval of the customs office. Otherwise, a fine ranging from 5% to 30% of the value of the goods shall be imposed, and illegal income shall be confiscated, if any. As a result, enterprises that may be entitled tax breaks should also weigh the import tax savings against the compliance cost of the regulation for bonded goods based on their characteristics of business operations and mid to long-term planning, and assess whether they should apply for the tax break.

5. Issuance of the Notice is in effect another adjustment to the relevant duty free and non-duty free catalogues, which aims to use preferential tax policies to encourage import of advanced and core technologies through major technical equipment before turning to independent development, and to guide industrial upgrading. Looking forward, we expect that authorities in charge will continue to adjust their policies based on industrial development, and KPMG will keep a close eye on the latest developments and provide the most updated information to our clients.

KPMG

CONTACT US

Khoonming Ho
Partner in Charge, Tax
China and Hong Kong SAR
Tel. +86 (10) 8508 7082
khoonming.ho@kpmg.com

Beijing/Shenyang
David Ling
Tel. +86 (10) 8508 7083
david.ling@kpmg.com

Tianjin
Eric Zhou
Tel. +86 (10) 8508 7610
ec.zhou@kpmg.com

Qingdao
Vincent Pang
Tel. +86 (532) 8907 1728
vincent.pang@kpmg.com

Shanghai/Nanjing
Lewis Lu
Tel. +86 (21) 2212 3421
lewis.lu@kpmg.com

Chengdu
Anthony Chau
Tel. +86 (28) 8673 3916
anthony.chau@kpmg.com

Hangzhou
John Wang
Tel. +86 (571) 2803 8088
john.wang@kpmg.com

Guangzhou
Lilly Li
Tel. +86 (20) 3813 8999
lilly.li@kpmg.com

Fuzhou/Xiamen
Maria Mei
Tel. +86 (592) 2150 807
maria.mei@kpmg.com

Shenzhen
Eileen Sun
Tel. +86 (755) 2547 1188
eileen.gh.sun@kpmg.com

Hong Kong
Karmen Yeung
Tel. +852 2143 8753
karmen.yeung@kpmg.com

Northern China

David Ling
Partner in Charge, Tax
Northern China
Tel. +86 (10) 8508 7083
david.ling@kpmg.com

Vaughn Barber
Tel. +86 (10) 8508 7071
vaughn.barber@kpmg.com

Andy Chen
Tel. +86 (10) 8508 7025
andy.m.chen@kpmg.com

Yali Chen
Tel. +86 (10) 8508 7571
yali.chen@kpmg.com

Milano Fang
Tel. +86 (532) 8907 1724
milano.fang@kpmg.com

Tony Feng
Tel. +86 (10) 8508 7531
tony.feng@kpmg.com

John Gu
Tel. +86 (10) 8508 7095
john.gu@kpmg.com

Helen Han
Tel. +86 (10) 8508 7627
h.han@kpmg.com

Naoko Hirasawa
Tel. +86 (10) 8508 7054
naoko.hirasawa@kpmg.com

Josephine Jiang
Tel. +86 (10) 8508 7511
josephine.jiang@kpmg.com

Henry Kim
Tel. +86 (10) 8508 5000
henry.kim@kpmg.com

Li Li
Tel. +86 (10) 8508 7537
li.li@kpmg.com

Lisa Li
Tel. +86 (10) 8508 7638
lisa.h.li@kpmg.com

Thomas Li
Tel. +86 (10) 8508 7574
thomas.li@kpmg.com

Simon Liu
Tel. +86 (10) 8508 7565
simon.liu@kpmg.com

Paul Ma
Tel. +86 (10) 8508 7076
paul.ma@kpmg.com

Alan O'Connor
Tel. +86 (10) 8508 7521
alan.oconnor@kpmg.com

Vincent Pang
Tel. +86 (10) 8508 7516
+86 (532) 8907 1728
vincent.pang@kpmg.com

Shirley Shen
Tel. +86 (10) 8508 7586
yinghua.shen@kpmg.com

State Shi
Tel. +86 (10) 8508 7090
state.shi@kpmg.com

Joseph Tam
Tel. +86 (10) 8508 7605
laiyiu.tam@kpmg.com

Michael Wong
Tel. +86 (10) 8508 7085
michael.wong@kpmg.com

Jessica Xie
Tel. +86 (10) 8508 7540
jessica.xie@kpmg.com

Irene Yan
Tel. +86 (10) 8508 7508
irene.yan@kpmg.com

Jessie Zhang
Tel. +86 (10) 8508 7625
jessie.j.zhang@kpmg.com

Sheila Zhang
Tel: +86 (10) 8508 7507
sheila.zhang@kpmg.com

Tiansheng Zhang
Tel. +86 (10) 8508 7526
tiansheng.zhang@kpmg.com

Tracy Zhang
Tel. +86 (10) 8508 7509
tracy.h.zhang@kpmg.com

Eric Zhou
Tel. +86 (10) 8508 7610
ec.zhou@kpmg.com

Central China

Lewis Lu
Partner in Charge, Tax
Central China
Tel. +86 (21) 2212 3421
lewis.lu@kpmg.com

Anthony Chau
Tel. +86 (21) 2212 3206
anthony.chau@kpmg.com

Cheng Chi
Tel. +86 (21) 2212 3433
cheng.chi@kpmg.com

Cheng Dong
Tel. +86 (21) 2212 3410
cheng.dong@kpmg.com

Marianne Dong
Tel. +86 (21) 2212 3436
marianne.dong@kpmg.com

Alan Garcia
Tel. +86 (21) 2212 3509
alan.garcia@kpmg.com

Chris Ge
Tel. +86 (21) 2212 3083
chris.ge@kpmg.com

Chris Ho
Tel. +86 (21) 2212 3406
chris.ho@kpmg.com

Dylan Jeng
Tel. +86 (21) 2212 3080
dylan.jeng@kpmg.com

Jason Jiang
Tel. +86 (21) 2212 3527
jason.jt.jiang@kpmg.com

Flame Jin
Tel. +86 (21) 2212 3420
flame.jin@kpmg.com

Sunny Leung
Tel. +86 (21) 2212 3488
sunny.leung@kpmg.com

Michael Li
Tel. +86 (21) 2212 3463
michael.y.li@kpmg.com

Christopher Mak
Tel. +86 (21) 2212 3409
christopher.mak@kpmg.com

Henry Ngai
Tel. +86 (21) 2212 3411
henry.ngai@kpmg.com

Yasuhiko Otani
Tel. +86 (21) 2212 3360
yasuhiko.otani@kpmg.com

Ruqiang Pan
Tel. +86 (21) 2212 3118
ruqiang.pan@kpmg.com

Amy Rao
Tel. +86 (21) 2212 3208
amy.rao@kpmg.com

Wayne Tan
Tel. +86 (28) 8673 3915
wayne.tan@kpmg.com

Rachel Tao
Tel. +86 (21) 2212 3473
rachel.tao@kpmg.com

Janet Wang
Tel. +86 (21) 2212 3302
janet.z.wang@kpmg.com

John Wang
Tel. +86 (21) 2212 3438
john.wang@kpmg.com

Mimi Wang
Tel. +86 (21) 2212 3250
mimi.wang@kpmg.com

Jennifer Weng
Tel. +86 (21) 2212 3431
jennifer.weng@kpmg.com

Henry Wong
Tel. +86 (21) 2212 3380
henry.wong@kpmg.com

Grace Xie
Tel. +86 (21) 2212 3422
grace.xie@kpmg.com

Bruce Xu
Tel. +86 (21) 2212 3396
bruce.xu@kpmg.com

Jie Xu
Tel. +86 (21) 2212 3678
jie.xu@kpmg.com

Robert Xu
Tel. +86 (21) 2212 3124
robert.xu@kpmg.com

William Zhang
Tel. +86 (21) 2212 3415
william.zhang@kpmg.com

Hanson Zhou
Tel. +86 (21) 2212 3318
hanson.zhou@kpmg.com

Michelle Zhou
Tel. +86 (21) 2212 3458
michelle.b.zhou@kpmg.com

Southern China

Lilly Li
Partner in Charge, Tax
Southern China
Tel. +86 (20) 3813 8999
lilly.li@kpmg.com

Penny Chen
Tel. +1 (408) 367 6086
penny.chen@kpmg.com

Vivian Chen
Tel. +86 (755) 2547 1198
vivian.w.chen@kpmg.com

Sam Fan
Tel. +86 (755) 2547 1071
sam.kh.fan@kpmg.com

Joe Fu
Tel. +86 (755) 2547 1138
joe.fu@kpmg.com

Ricky Gu
Tel. +86 (20) 3813 8620
ricky.gu@kpmg.com

Fiona He
Tel. +86 (20) 3813 8623
fiona.he@kpmg.com

Angie Ho
Tel. +86 (755) 2547 1276
angie.ho@kpmg.com

Ryan Huang
Tel. +86 (20) 3813 8621
ryan.huang@kpmg.com

Cloris Li
Tel. +86 (20) 3813 8829
cloris.li@kpmg.com

Jean Li
Tel. +86 (755) 2547 1128
jean.j.li@kpmg.com

Kelly Liao
Tel. +86 (20) 3813 8668
kelly.liao@kpmg.com

Donald Lin
Tel. +86 (20) 3813 8680
donald.lin@kpmg.com

Grace Luo
Tel. +86 (20) 3813 8609
grace.luo@kpmg.com

Maria Mei
Tel. +86 (592) 2150 807
maria.mei@kpmg.com

Eileen Sun
Tel. +86 (755) 2547 1188
eileen.gh.sun@kpmg.com

Michelle Sun
Tel. +86 (20) 3813 8615
michelle.sun@kpmg.com

Bin Yang
Tel. +86 (20) 3813 8605
bin.yang@kpmg.com

Lixin Zeng
Tel. +86 (20) 3813 8812
lixin.zeng@kpmg.com

Hong Kong

Ayesha M. Lau
Partner in Charge, Tax
Hong Kong SAR
Tel. +852 2826 7165
ayesha.lau@kpmg.com

Chris Abbiss
Tel. +852 2826 7226
chris.abbiss@kpmg.com

Darren Bowdern
Tel. +852 2826 7166
darren.bowdern@kpmg.com

Yvette Chan
Tel. +852 2847 5108
yvette.chan@kpmg.com

Lu Chen
Tel. +852 2143 8777
lu.l.chen@kpmg.com

Rebecca Chin
Tel. +852 2978 8987
rebecca.chin@kpmg.com

Matthew Fenwick
Tel. +852 2143 8761
matthew.fenwick@kpmg.com

Barbara Forrest
Tel. +852 2978 8941
barbara.forrest@kpmg.com

Sandy Fung
Tel. +852 2143 8821
sandy.fung@kpmg.com

Stanley Ho
Tel. +852 2826 7296
stanley.ho@kpmg.com

Daniel Hui
Tel. +852 2685 7815
daniel.hui@kpmg.com

Charles Kinsley
Tel. +852 2826 8070
charles.kinsley@kpmg.com

John Kondos
Tel. +852 2685 7457
john.kondos@kpmg.com

Kate Lai
Tel. +852 2978 8942
kate.lai@kpmg.com

Jocelyn Lam
Tel. +852 2685 7605
jocelyn.lam@kpmg.com

Alice Leung
Tel. +852 2143 8711
alice.leung@kpmg.com

Steve Man
Tel. +852 2978 8976
steve.man@kpmg.com

Ivor Morris
Tel. +852 2847 5092
ivor.morris@kpmg.com

Curtis Ng
Tel. +852 2143 8709
curtis.ng@kpmg.com

Benjamin Pong
Tel. +852 2143 8525
benjamin.pong@kpmg.com

Malcolm Prebble
Tel. +852 2684 7472
malcolm.j.prebble@kpmg.com

Nicholas Rykers
Tel. +852 2143 8595
nicholas.rykers@kpmg.com

Murray Sarelius
Tel. +852 3927 5671
murray.sarelius@kpmg.com

David Siew
Tel. +852 2143 8785
david.siew@kpmg.com

John Timpany
Tel. +852 2143 8790
john.timpany@kpmg.com

Wade Wagatsuma
Tel. +852 2685 7806
wade.wagatsuma@kpmg.com

Lachlan Wolfers
Tel. +852 2685 7791
lachlan.wolfers@kpmg.com

Christopher Xing
Tel. +852 2978 8965
christopher.xing@kpmg.com

Karmen Yeung
Tel. +852 2143 8753
karmen.yeung@kpmg.com

Adam Zhong
Tel. +852 2685 7559
adam.zhong@kpmg.com

kpmg.com/cn