

New Regulations on Cross-Border E-Commerce (Import)



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Asia Distribution and Retail
Fung Business Intelligence Centre

Highlights

The Ministry of Finance, China Customs, the State Administration of Taxation jointly announced **new policies on cross-border e-commerce (CBEC)** on 24 March, 2016. The new policy will be effective from **8 April, 2016**.

1. The personal postal articles tax on imported products applied on CBEC (import business) will be **replaced by a new tax formula**.
 - New transaction limit per order via CBEC platform will be increased from 1,000 yuan to **2,000 yuan**.
 - New upper limit per person each year (or the “annual cap”) will be set at **20,000 yuan**.
 - For single orders with price tags larger than 2,000 yuan, or total transaction value over 2,000 yuan, taxes applicable for general import will be levied.
 - For single orders with price tags less than or equal to 2,000 yuan, or total transaction value under or equals to 2,000 yuan, a new tax will replace the tax for personal postal articles. The new tax will include **import tariff + VAT + consumption tax**, where the actual tax payable to the Custom will be **70% of the calculated taxable amount**. Current import tariff is temporarily set to 0%.
2. Meanwhile, the personal postal articles tax will be adjusted. The four rates (10%, 20%, 30%, 50%) will be replaced by the new rates which are categorized into **15%, 30%, and 60%** levels.

Objectives

The major objectives of the regulation are to better regulate the CBEC channels and reduce policy loopholes, ensure tax collection, and to reduce the price gap between CBEC and general import, so as to ensure a fair market environment for all players across online and offline channels.

Details

Key adjustments under the new regulation:

1. New transaction limit per order via CBEC platform will be increased from 1,000 yuan to 2,000 yuan. New upper limit per person each year (or the “annual cap”) will be set at 20,000 yuan.
2. For single orders with price tags larger than 2,000 yuan, or total transaction value over 2,000 yuan, taxes applicable for general import will be levied.
3. For single orders with price tags under or equals to 2,000 yuan, or total transaction value under or equals to 2,000 yuan, a new tax will replace the tax for personal postal articles. The new tax will include import tariff + VAT + consumption tax, where the actual tax payable to the Custom will be 70% of the calculated taxable amount. Current import tariff is temporarily set at 0%.
4. Before the tax adjustment, the personal postal articles tax was exempted by the Customs if the taxable value was 50 yuan or below. Under the new regulation, the exemption will be cancelled.
5. Duty-paid value (the actual transaction price) includes retail price of goods, shipping costs and insurance costs. End-consumers are liable to pay the taxes, but CBEC platforms can pay the taxes on behalf of customers.
6. Customers can apply for tax refund for goods returned within 30 days of purchase from CBEC channels.
7. The Ministry of Finance will further announce a comprehensive list of products applicable to CBEC.
8. The new regulation will be effective from 8 April, 2016.

Comparison of the regulations

Regulation before 8 April, 2016

Value cap per transaction	≤ 1,000 yuan
Annual cap	No nationwide requirement
Tax applied	Personal postal articles tax
Personal postal articles tax	10%, 20%, 30%, 50% varies from products
	Personal postal articles tax ≤ 50 yuan: waived
Products can be imported via CBEC	Negative list is published

Source: Ministry of Finance, compiled by Fung Business Intelligence Centre

New regulation after 8 April, 2016

Value cap per transaction	≤ 2,000 yuan
Annual cap	20,000 yuan
Tax applied	Import tariff + VAT + consumption tax
Import tariff	Transaction of single orders ≤ <u>2,000 yuan</u> : 0%
	Transaction of single orders > <u>2,000 yuan</u> : import tariff for general import applied
VAT / consumption tax	Transaction of single orders ≤ <u>2,000 yuan</u> : 70% of VAT and consumption tax
Products can be imported via CBEC	A comprehensive list of products applicable to CBEC will be released by the Ministry of Finance

Source: Ministry of Finance, compiled by Fung Business Intelligence Centre

Price comparison of selected product categories (for transaction of single orders under 2,000 yuan)

Product categories		Tax applicable	Tax applicable			Difference
		before 8 April, 2016	after 8 April, 2016			
		Personal postal articles tax	Tariff	VAT	Consumption tax	
Food & beverage	≤500 yuan	waived	0%	17% * 70% = 11.9%	0%	↑
	>500 yuan	10%			0%	↑
Apparel	≤250 yuan	waived			0%	↑
	>250 yuan	20%			0%	↓
Skin care & personal care products without consumption tax	≤100 yuan	waived			0%	↑
	>100 yuan	50%			0%	↓
Color cosmetics or others products with consumption taxes applied	≤100 yuan	waived			30% * 70% = 21%	↑
	>100 yuan	50%			30% * 70% = 21%	↓

Source: China Customs, compiled by Fung Business Intelligence Centre

Comparison of the current and new personal postal articles tax

Personal postal articles tax before 8 April, 2016

Tax rate	Selected product categories
10%	Food & beverage, leather clothes & accessories, bags & shoes, furniture, toys
20%	Apparel & textile, general watches
30%	Luxury watches (>10,000 yuan)
50%	Cosmetics, skin care products

Source: China Customs, compiled by Fung Business Intelligence Centre

Personal postal articles tax after 8 April, 2016

Tax rate	Selected product categories	Remarks
15%	Food & beverage furniture, toys	Products with a zero most-favored-nation (MFN) tariff rate
30%	Leather clothes & accessories, bags & shoes, apparel & textile, general watches	Other products
60%	Luxury watches, cosmetics	Luxury products applicable to consumption tax

Source: China Customs, compiled by Fung Business Intelligence Centre

Implications to retailers

1. Taxes for imported products with a higher-ticket price (but under 2,000 yuan) such as cosmetics and apparel will be lowered. This may attract more customers to buy these types of higher-ticket items via CBEC channels.
2. Higher taxes for daily goods will reduce the price difference between CBEC channels and general import channels. A significant part of the consumption is expected to shift back to traditional retail channels.
3. The new policy may provide new opportunities for “daigou” business as it is cheaper to buy daily goods or lower-ticket items such as baby diapers via “daigou” agents.
4. The new CBEC regulation, together with the lowering of import tariffs for selected product categories, allow retailers to have more flexibility in choosing the best ways to import products. But CBEC still has the advantage of shorter time for custom clearance.
5. With less tax advantage than in the past, CBEC operators may put more focus on streamlining cross-border supply chain, and improving their sourcing capability. This may increase the variety of products they offer.

Reference

The announcements can be accessed at Ministry of Finance’s website (in Chinese):

http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201603/t20160324_1922968.html

http://gss.mof.gov.cn/zhengwuxinxi/gongzuodongtai/201603/t20160324_1922972.html

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