



## Review Timetable for the Unified China Income Tax Law

A recent document issued by the State Council indicates that various tax laws are to be amended and are on the 2006 work plan. Probably, the ones attracting most attention may be the following:

- New Corporate Income Tax Law ("New CIT Law")
- Export Tax Refund Tentative Regulation
- Stamp Duty Tentative Regulation (Amendments)

In particular, the unification of CIT Laws for domestic enterprises and foreign investment enterprises has been a subject dear to the hearts of many foreign investors for many years. Foreign investors are concerned about the changes on the incentive policy, the timing of the law change as well as transitional relief available, if any.

According to the State Council document, the legislation of CIT Law has been categorized as a priority task which generally means that the target date of completion is within a year. We understand that working groups in various authorities such as the State Administration of Taxation, the Ministry of Finance, etc are expediting the drafting exercise.

Generally, before the new CIT is promulgated, the draft shall undergo certain review and approval process within the National People's Congress ("NPC") which in some cases may delegate the tasks to its Standing Committee. In this regard, we understand that the Standing Committee of the NPC has preliminarily put this task onto its 2006 work agenda with the first review expected around August.

If the process goes expediently, the reviewed draft CIT Law may become ready for the NPC's discussion and approval in March 2007. The new CIT Law may therefore be released shortly afterwards. Meanwhile, in order to observe the transparency principle after WTO accession, the Chinese government may allow a few months for the public to understand the new CIT Law before it actually comes into effect.

It is obviously necessary to continue monitoring the legislative progress of this important bill.

## Consumption Tax Reform

To cope with the economic development and change in consumption pattern in China, and to align with the national policy of environmental protection, the Ministry of Finance and the State Administration of Taxation recently jointly issued Cai Shui [2006] 33 ("Circular 33") to put forth major changes to the Consumption Tax ("CT") taxable categories. With effect from 1 April 2006, the following new items (i.e. category # IX to XIII in the attached table) are subject to CT :

- Golf ball and equipment
- Luxury watch
- Yacht
- Disposable wooden chopsticks
- Wooden floorboard

In addition to these new items, a "product oil" category (i.e. category # XIV in the attached table) is created to include different petroleum related products. A more detailed classification after the addition of 5 sub-categories (i.e. category # XIV (3) – (7) in the attached table) allows for taxing different petroleum products at different rates.

Furthermore, sub-categories based on the cylinder capacity of engines are revised in categories "motorcycle" and "motor car" (i.e. categories # VII and VIII in the attached table). It effectively reduces CT for motorcycles and cars carrying small cylinder capacity engines but increases CT for cars having larger cylinder capacity engines.

In addition, Circular 33 has eliminated the category "skin-care and hair-care products" used under the old CT regime, which may denote that these products have become a necessity rather than luxury. Due to similar reason, Circular 33 has re-grouped the "luxurious skin-care products" which were originally classified under the "skin-care and hair-care products" category into the "cosmetics" category. However, there is no definition of "luxurious skin-care products" under Circular 33.

Circular 33 has also addressed a few foreseeable cut-off issues when implementing the new CT regime:

- Sales return due to quality problem of taxable items under the new categories, eliminated category or reclassified categories should be dealt with in accordance with the Implementation Rules of the Consumption Tax.
- Commercial enterprises are not required to pay additional consumption tax in respect of their inventory as at 31 March 2006.
- Exporting enterprises may apply for tax refund based on the original rates in respect of export made after 1 April 2006 for taxable items bought before 31 March 2006 provided that there are relevant consumption tax payment certificates (for export use only).

The following table shows the 14 categories of taxable items under the CT regime effective 1 April 2006.

<u>Taxable Item</u>		<u>Taxable Unit</u>	<u>Tax Rate / Amount</u>
I.	Tobacco 1. Cigarettes Basic charge Additional charge 2. Cigars 3. Cut tobacco	50,000 pieces	RMB150 30%/45% 40% 30%
II.	Alcoholic drinks and alcohol 1. White spirits made from cereal or potatoes Basic charge Additional charge 2. Yellow spirits 3. Beer 4. Other alcoholic drinks 5. Alcohol	Catty (500g)  Ton Ton	RMB0.5 20% RMB240 RMB220-250 10% 5%
III.	Cosmetics (including cosmetic sets and luxurious skin-care products)		30%
IV.	Precious jewellery, precious jade and stones (including all kinds of gold, silver, jewellery, and precious-stone ornaments ) and jewellery made with gold, silver and gold and silver mixed with alloys		5%/10%
V.	Firecrackers and firework		15%
VI.	Motor vehicle tyre (Note 1)		3%
VII.	Motorcycle Cylinder capacity of 250 ml or below Cylinder capacity of more than 250 ml		3% 10%
VIII.	Motor car 1. Private car Cylinder capacity of 1.5 litres and below Cylinder capacity of 1.5 - 2 litres (including 2 litres) Cylinder capacity of 2 - 2.5 litres (including 2.5 litres) Cylinder capacity of 2.5 - 3 litres (including 3 litres) Cylinder capacity of 3 - 4 litres (including 4 litres) Cylinder capacity of more than 4 litres 2. Medium/Light vehicle for business use		3% 5% 9% 12% 15% 20% 5%
IX.	Golf ball and equipment		10%
X.	Luxury watch		20%
XI.	Yacht		10%

<u>Taxable Item</u>		<u>Taxable Unit</u>	<u>Tax Rate / Amount</u>
XII.	Disposable wooden chopsticks		5%
XIII.	Wooden floorboard		5%
XIV.	Product oil		
	1. Gasoline		
	Unlead	Litre	RMB0.2
	Lead (contain lead of over 0.013g/litre)	Litre	RMB0.28
	2. Diesel	Litre	RMB0.1
	3. Naphtha (Note 2)	Litre (1 Ton =1,385 Litres)	RMB0.2
	4. Solvent oil (Note 2)	Litre (1 Ton =1,282 Litres)	RMB0.2
	5. Lubricating oil (Note 2)	Litre (1 Ton =1,126 Litres)	RMB0.2
	6. Fuel oil (Note 2)	Litre (1 Ton =1,015 Litres)	RMB0.1
	7. Aviation kerosene (Note 3)	Litre (1 Ton =1,246 Litres)	RMB0.1

- Note :
1. Radial-ply tyres are temporarily exempted from CT.
  2. 70% consumption tax on naphtha, solvent oil, lubricating oil and fuel oil is temporarily exempted.
  3. Consumption tax on aviation kerosene is temporarily exempted.

In the context of this China Tax / Business News Flash, China refers to the People's Republic of China but excludes Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region.

The information contained in this publication is for general guidance on matters of interest only and is not meant to be comprehensive. The application and impact of laws can vary widely based on the specific facts involved. Before taking any action, please ensure that you obtain advice specific to your circumstances from your usual PricewaterhouseCoopers client service team.

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