

## Announcement by the Customs Tariff Commission of the State Council on the Adjustment of Import Tariffs for Some Consumer Goods

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On November 22, 2017, the Customs Tariff Commission of the State Council issued an Announcement on the Adjustment of Import Tariffs for Some Consumer Goods (Shuiweihui [2017] No.25, hereinafter “Announcement”), and lowered import tariffs for some consumer goods with provisional tariff rates. Specifically, the average tariff rate of a total of 187 products including consumer goods such as food, supplement food, pharmaceutical products, household chemicals, and apparel-related products was reduced from 17.3% to 7.7%. The Announcement became effective on December 1, 2017.

### 1. Background of the Policy

The said reduction of import tariffs was the fourth since 2015. The three reasons/objectives of why the reduction of import tariffs is progressing are to (1) reduce the prices of consumer goods for the benefit of the people based on the idea of reducing import tariffs for some consumer goods to encourage imports of distinctive products, submitted in the 16th meeting of the Central Finance and Economy Leading Small Group in July 2017, (2) make the cost of import products close to the domestic products in order to provide import products a fair competition platform, and (3) further open the Chinese market to import products, and cement the position of the Chinese market as the world’s largest consumer market.

The products subject to the tariff reduction are mostly consumer goods. They were decided by selecting items that people have great needs for based on recent nationwide customs import and export data, and conducting interviews in the industry association and with related companies.

### 2. Details of the Policy

Please refer to Fig. 1 below for the products subject to the tariff reduction and the tariff rates before and after the adjustment.

[Fig. 1] Products subject to the tariff reduction (excerpt)

Category	HS code	Product name	Most favored nation’s tariff rate before the reduction	Temporary tariff rate after the reduction
Cosmetics	33030000	Perfume	10%	5%
	33041000	Lip balm (cosmetics for lips)	10%	5%
	33042000	Eye makeup	10%	5%
	33051000	Shampoo	6.5%	2%
Beverages	22011010	Mineral water	20%	10%
	22083000	Whisky	10%	5%
Home appliances	85167990	Advanced toilet seat	32%	10%
	85167110	Drip-style coffee maker	32%	10%
	85101000	Electric shaver	30%	10%

Infant products	21069090	(Some) special baby formula	20%	0%
	96190011	Infant paper diaper	7.5%	0%
Hygiene products	96190020	Sanitary products	10%	5%

The tariff reduction is expected to give a positive impact on cross-border e-commerce as well. The following table shows the result of simulating the import cost based on the taxation regulations stated in the Notice Concerning Import Tax Policy on Cross-border Retail E-commerce (Cai Guan Shui [2016] No.18), using infant paper diapers<sup>1</sup> as an example.

Amount	Before December 1, 2017				December 1, 2017 and onward			
	Tariff rate (*1)	VAT rate (*2)	Consumption tax rate (*2)	Total tax burden (*3)	Tariff rate (*1)	VAT rate (*2)	Consumption tax rate (*2)	Total tax burden (*3)
< RMB100	0%	17%	0%	11.9%	0%	17%	0%	11.9%
RMB100-2,000	0%	17%	0%	11.9%	0%	17%	0%	11.9%
> RMB2,000	7.5%	17%	0%	<b>25.8%</b>	0%	17%	0%	<b>17.0%</b>

\*1: The tariff rates were searched by using the tax regulation search system on the General Administration of Customs website. Specific rates vary by product category.

\*2: The tariff rates for retail products imported through cross-border e-commerce within the limit amount are provisionally 0%, and VAT and consumption tax involved in import are provisionally collected at 70% of the legal tax amount.

\*3: Total tax burden = tariff + VAT + consumption tax

Tariffs, VAT, and consumption tax are each calculated based on regulations (for your reference).

According to the simulation above, infant paper diapers imported through cross-border e-commerce will cost differently depending on the total amount of the transaction. For a product listed in the Announcement, if the total amount of a purchase is less than RMB2, 000, the tariff rate will be zero as before, so there will be no impact of the tariff reduction. On the other hand, if the total amount of a transaction exceeds RMB2, 000, the cumulative total amount exceeds an individual's yearly limit of RMB20, 000, or the product is something that cannot be divided and its amount including tax is RMB2, 000 or more, the import cost will be lowered.

Meanwhile, there is a system of collecting tax as parcel tax for cross-border e-commerce products for which electronic data cannot be provided. For infant paper diapers mentioned above, a 30% parcel tax may be collected. This means that tax will be significantly higher than in general trade, if electronic data cannot be provided.

### 3. Impact on Enterprises

It is assumed that importers can keep down import cost and enjoy the benefit of the tariff reduction announced in the Announcement. Meanwhile, for Chinese companies doing domestic business, competition may intensify because some of the import products may be priced competitively. For cross-border e-commerce business operators, the tariff reduction may lead to a possibility of reduction of product prices, but there will no impact on products under RMB2, 000. We will continue to follow up on the matter and share relevant information as appropriate.

<sup>1</sup> Infant paper diapers are daily necessities, and its consumption tax rate is 0%.

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