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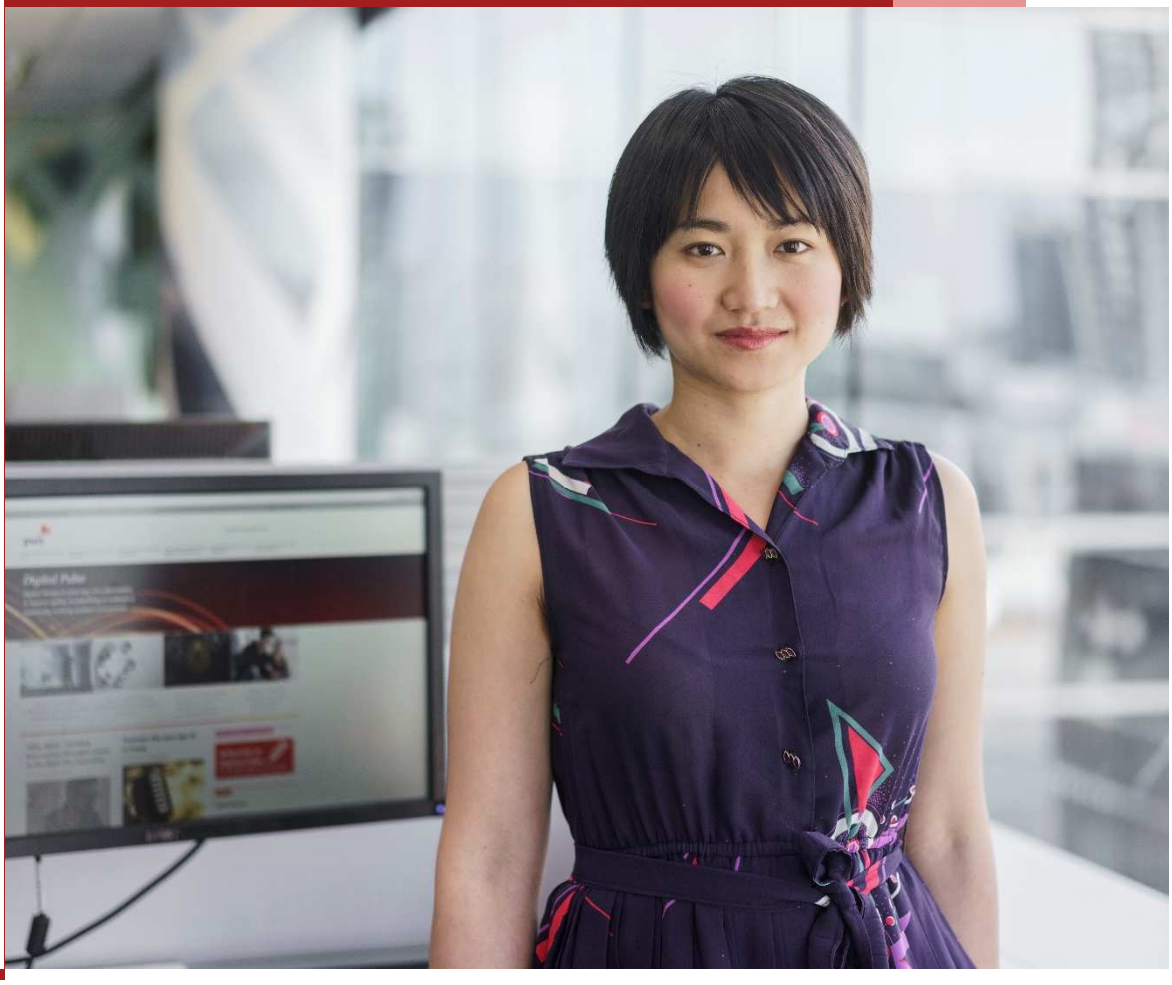
Trade Alert on China — What is next for Cross-border E-commerce (B2C) Business in China?



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普华永道

In response to the booming cross-border e-commerce market in China, new policies were recently issued to tighten regulations and facilitate further growth and development, while balancing the impacts cross-border e-commerce has had to the traditional B2B business.

The new policies cover an introduction of the new tax collection rules for different cross-border e-commerce models and a set of new postal (parcel) tax rates, which are to come into effect as of 08 April 2016. Additionally, a permitted goods list was issued recently together with new supervision measures encompassing further details on operational guidance, goods clearance, tax collection, logistics supervision, and return goods management.

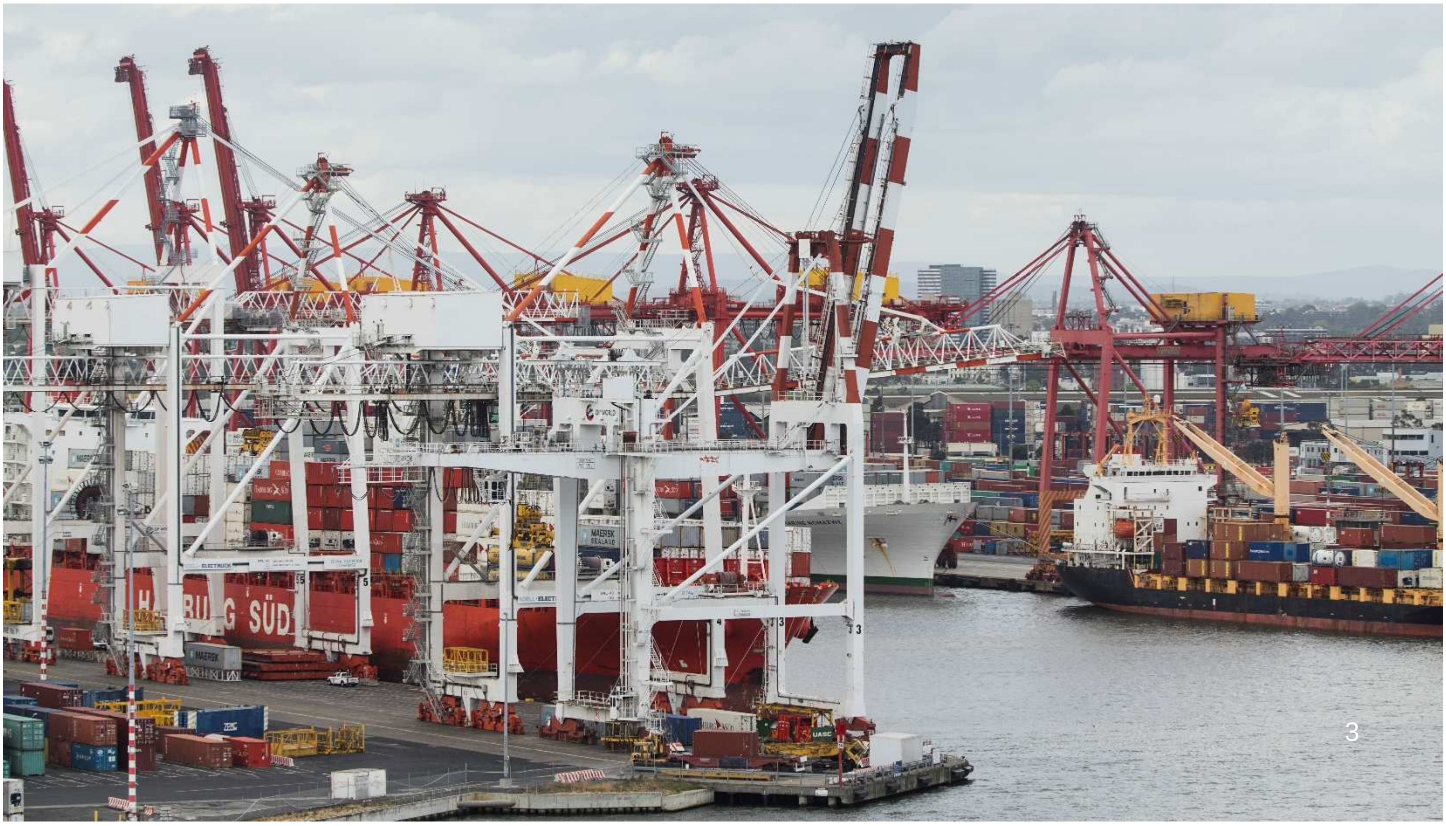
Am I going to be impacted by the new policies?

Typically, under cross-border e-commerce, goods are purchased via a domestic e-commerce platform with the goods dispatched from a bonded warehouse in China.

The new import tax measures would apply to goods imported from other countries, which are included in the Permitted Goods List for cross-border B2C e-commerce imports if the following criteria are fulfilled:

- Transactions arranged via e-commerce platform networking with Customs and a full set of information of purchase, payment and logistics is made available ; or
- Transactions arranged via ecommerce platform without networking with Customs but the express delivery or courier company is able to provide the full set of information of purchase, payment and logistics and is committed to hold responsibilities on the goods imported through the cross-border e-commerce channel.

Hence, if the goods are not imported through a cross border e-commerce channel or the information of purchase, payment and logistics with respect to the goods imported through the cross-border e-commerce channel is not made available, the existing rules for importation of goods would continue to apply.



What changes should I be aware of?

1. Tax collection rules

The following table summarizes some of the key changes and impacts of the new tax collection rules:

Impact under the New Rules	Postal Tax Policies	New Postal Tax Policies	New Cross-border E-Commerce Tax Measures
Threshold for tax collection	Single order: RMB 800 (goods coming from HK, Macao and Taiwan); RMB 1,000 (goods coming from other overseas countries) Annual order/person: RMB 20,000(but waived for many pilot platforms, e.g. KJT) The parcel tax rate will still apply if the above threshold is exceeded but the parcel contains only one single inseparable item, and the item is for personal use.		Single order: RMB 2,000 Annual order/person: RMB 20,000
Exemptions	Import tax exempted when less than RMB 50		No exemption available
What tax rate applies?	Parcels tax rate (10%, 20%, 30% or 50%)	Parcels tax rate (15%, 30% or 60%)	Duty: Exempted Import VAT /Consumption Tax: 70% of the regular amount payable
Tax rules for goods exceeding the threshold	Subject to General Trade duty/import VAT rates		
Tax refund for goods return	Subject to local practices		Tax refund applicable for goods returned within 30 days of goods release by Customs

What changes should I be aware of?

2. Updates to the postal tax rate

The parcels tax rate has been revised from 4 categories (10%, 20%, 30%, 50%) to 3 categories (15%, 30%, 60%), generally witnessing an increase in the rate.

Tariff Code	Description	Items Contained	Previous Postal Tax Rate	New Postal Tax Rate
1	Mainly goods with a 0% duty (MFN) rate	Publications and videos for education	10%	15%
		IT products (computer, video recording machine, digital cameras, etc.)	10%	
		Food & Beverage	10%	
		Gold & sliver	10%	
		Furniture	10%	
		Toys & other entertainment products	10%	
2	Mainly goods not covered under tariff codes 1 & 3	Sports products (other than for golf)	10%	30%
		Fishing products	10%	
		Textile and its articles	20%	
		Television camera and other electrical appliance	20%	
		Bicycle	20%	
		Other products	10%/20%	
3	Mainly for goods subject to consumption tax	Tobacco & Alcohol	50%	60%
		Precious jewelry and gems	10%	
		Golf balls and products	30%	
		Luxury watch	30%	
		Make-ups	50%	

Note: The above shall apply only to goods that are listed in the Scope of the Permitted Goods List for Cross-border B2C E-commerce Imports which defines the types of permitted products.

How are the new policies going to impact my cross-border e-commerce (B2C) business in China?

- **Feasibility and benefit of cross-border e-commerce business**

  Under the new rules, goods exceeding the published tax threshold will be subject to duty/import VAT as under General Trade. It is currently unclear whether this would also mean that other General Trade requirements, such as licensing and inspection, would also apply. Such requirements could jeopardize the utilization of a cross-border e-commerce model on certain goods, for example, luxury apparels usually exceeding RMB 2,000 and with a high possibility of being subject to mandatory inspection.

- **Cost implications**

  With the new measures and the changes on postal tax rates, management should perform a detailed analysis to assess the potential duty and tax implications, and potentially a re-assessment of business models available under B2C and B2B2C.

- **Interaction with the 13 pilot national-level cross-border e-commerce pilot cities**

  The new measures are expected to apply to all cities, including those cross-border e-commerce pilot cities. As the pilot cities will take the lead in setting new standards for cross-border e-commerce transactions, payment, logistics, customs clearance, exchange settlement, inspection quarantine, etc., there may be other non-tax conveniences that these pilot cities can offer. It should be noted that given the local governments will be in charge of releasing its own detailed plan, there may be variations among different e-commerce pilot cities in practice.

To effect the implementation of the new policy, please take note that there are other nuances such as complying with customs clearance formalities with sufficient documentation for each declaration or shipment. If in doubt we would be happy to share further insights and local practices in these areas.

Contacts

For further assistance about PwC's customs and international trade services, please contact:

Frank Wu
Director
PwC China, Shanghai
+86 (21) 2323 3864
frank.j.wu@cn.pwc.com

Derek Lee
Partner
PwC China, Shanghai
+86 (21) 2323 7733
derek.wc.lee@cn.pwc.com

Susan Ju
Partner
PwC China, Beijing
+86 (10) 6533 3319
susan.ju@cn.pwc.com

Colbert Lam
Partner
PwC China, Shenzhen
+852 2289 3323
colbert.ky.lam@hk.pwc.com

For more information, please also visit: www.pwccustoms.com

PwC' s Customs & International Trade Practice

Customs and international trade in China is complex, but with the right approach is manageable. A planned and structured approach results in cost savings, higher levels of compliance and fewer unwanted surprises during an audit. PricewaterhouseCoopers' specialists within our Greater China customs and international trade practice provide a wide range of advice and services related to creating value, ensuring compliance, and managing risk in relation to the movement of goods into and out of China.