The impact and countermeasures of new tax policy for cross-border e-commerce in China[1]

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Abstract

The implementation of the *Announcement on Issues concerning the Regulation of Retail Import and Export Commodities through Cross-Border E-commerce* marked the end of a tax-free era of cross-border e-commerce in China. The new policies (known in this paper as the New Deal) have had a profound effect on enterprises, consumers and overseas purchasing agents engaged in cross-border e-commerce transactions. Empirical data from eight cross-border e-commerce pilot cities (Shanghai, Chongqing, Guangzhou, Shenzhen, Zhengzhou, Ningbo, Hangzhou and Dongguan) were studied. Results from the research into these pilot cities show that: (1) the development of cross-border e-commerce among those cities is unbalanced; (2) the New Deal has not resulted in a significant impact on import and export behaviours; and (3) the tax burden of cross-border e-commerce enterprises has increased considerably since the implementation of the New Deal.

Based on these results, for the purpose of promoting the development of cross-border e-commerce, the following recommendations are made: (1) improve the policies and regulations to create an environment that supports e-commerce development; (2) facilitate the port cooperation mechanism and promote the construction of a customs single window; (3) strengthen top-level design and improve the coordination and management between relevant authorities; and (4) encourage enterprises to follow market trends and focus on product innovation and market expansion.

1. Introduction

With economic development and mature internet technology, cross-border e-commerce has established itself as rapidly developing commercial mode (Saimiee, 1998). In academia, the generally accepted definition of cross-border e-commerce is the trade in goods between parties from different countries or regions, and related business data exchange through the internet and its relevant information platforms (Pan, Gunasekaran & McGaughey, 2006; Lee, 2012). In this paper, cross-border e-commerce refers to a commercial offering of goods and related service transactions by which trading parties from different customs territories conclude transactions and settle payment by means of platforms such as e-commerce, logistics and payment platforms linked to China Customs, and goods delivery through cross-border logistics.

On 24 March 2016, the Ministry of Finance, General Administration of Customs of China and China's State Administration of Taxation jointly issued the *Notice on Cross-Border E-commerce Retail Import Taxation Policy* (Cai Guan Shui [2016] No.18), which substantially modified the import tax on cross-border retail transactions (Ministry of Finance, 2016). At the same time, a dozen administrations, including the General Administration of Customs of China and the Ministry of Finance, released the first and second wave of the ‘positive lists’ of cross-border retail import goods on 7 April and 15 April, respectively.

These lists were introduced to further standardise cross-border retail import processes.

Through this series of policies, cross-border e-commerce has undergone drastic changes in the revenue collection and supervision environment (Xiang & Liangting, 2016). The policies have also signified the end of the tax-free era of cross-border e-commerce, which has a profound influence on enterprises, consumers and overseas purchasing agents engaged in cross-border e-commerce transactions.

The New Deal—which in this paper refers to the series of policies on tax and supervision of cross-border e-commerce that came into effect after 8 April 2016—introduced changes to the regulation of cross-border e-commerce, making the tax framework much clearer and introducing tax equality. However, because the introduction of the New Deal did not include a sufficient buffer period, e-commerce enterprises were too late to modify their information systems, which increased the burden on those enterprises because goods that were destined for bonded warehouses could not be processed before those policies come into practice. Furthermore, the positive lists lack an authoritative interpretation, with each side interpreting the lists differently because they lack clarity. It is also argued that the value limits set by the New Deal are too low, as they hinder citizens wishing to purchase high-end cosmetics and other commodities.

In order develop an in-depth knowledge of China’s cross-border e-commerce after the New Deal, our group members have undertaken research in the cross-border e-commerce pilot cities of Shanghai, Chongqing, Guangzhou, Shenzhen, Zhengzhou, Ningbo, Hangzhou and Dongguan. Following an empirical analysis of the data gathered, highlighting the differences between before and after the New Deal, we propose a number of cross-border e-commerce initiatives.

2. The change of tax policy before and after the New Deal

2.1 Cross-border e-commerce tax policy before the New Deal

Before the New Deal, tax generated from China’s cross-border e-commerce was primarily made up of postal tax or tariffs, value-added tax (VAT) and excise on certain goods.[2] In general, the postal tax was applied to private imports, that is, goods for personal use with a value of no more than 1,000RMB, while tariffs, VAT and excise applied to commercial imports.

The tax rates applying to commercial goods before the New Deal were set at 10 per cent, 20 per cent, 30 per cent and 50 per cent, with such goods attracting a tariff rate, VAT rate and excise rate.

Private imports subject to postal tax were exempted from paying the tax in situations where the tax generated by a single consignment was less than 50RMB. This was advantageous for low-value private imports.

2.2 Cross-border e-commerce tax policy after the New Deal

After the New Deal, the tax exemption policy was no longer generally applicable to private imports, and tariffs, excise and postal tax applied. There were, however, some concessions for lower value goods, provided they met the following criteria:

- for personal and reasonable use (within the positive list)
- within a single purchase value limit of 2,000RMB
- within an annual purchase value limit of 20,000RMB.

For private imports, tariffs are now levied at 0 per cent and VAT and excise duties are levied at 70 per cent, whereas for commercial imports, tariffs, VAT and excise are levied at applicable tariff rates, VAT rates and excise rates.

Following the New Deal, neither private imports nor commercial imports are eligible for the 50RMB tax exemption. In other words, since the New Deal was introduced, all categories of imported goods are taxed.

2.3 Influence on cross-border e-commerce after the New Deal

2.3.1 Increase of cross-border e-commerce tax burden

With the implementation of the new tax policy, cross-border e-commerce policy dividends have disappeared, and the cost of many imported goods has increased. It is estimated that the rate of increase is at least 11.9 per cent. The commodities most affected include low-cost cosmetics, maternal and child products, and luxury products.

Before the New Deal, the tax on cosmetics valued at no more than 100RMB was zero, while after the New Deal was introduced, the tax rate increased to 32.9 per cent. Similarly, before the New Deal, most maternal and child goods were exempt from tax, while after the New Deal, the tax rate is 11.9 per cent. For luxury goods with prices higher than 2,000RMB, the tax rate has remained similar compared to that of traditional importing, but the dutiable value is higher. For example, the tax rate of high-end watches was 30 per cent before the New Deal and 48 per cent after the New Deal, with the retail price being viewed as the dutiable price.

At the same time, the tax burden for certain goods has been reduced, such as cosmetics and electrical products within a certain value range. For example, for cosmetics priced between 100RMB and 2,000RMB, the tax burden has decreased from 50 per cent to 32.9 per cent (see Table 1).

Table 1: Comparison of tax burden of different commodities before and after the New Deal

Commodity Category	Value (RMB)	Before the New Deal		After the New Deal			Change
		Tax rate	Levy	Tariff	VAT	Excise	
Maternal and child	<500	10%	0%	0%	11.9%	0%	↑11.9%
	>500	10%	10%	0%	11.9%	0%	↑1.9%
Cosmetics	<100	50%	0%	0%	11.9%	21%	↑32.9%
	>100	50%	50%	0%	11.9%	21%	↓17.1%
Clothing, electrical equipment	<250	20%	0%	0%	11.9%	0%	↑11.9%
	>250	20%	20%	0%	11.%	0%	↓8.1%
High-end watches	>2000	30%	30%	11%	17%	20%	↑18.0%

2.3.2 Change from the bonded model to direct mail model

The disappearance of the tax-exemption policy means that cross-border e-commerce changed from a bonded model to a direct mail model. Currently, China's cross-border e-commerce retail imports are mainly divided into two business models:

1. Overseas direct mail model. In this model, domestic consumers confirm an order through cross-border e-commerce platforms, the platform sends the order information to overseas suppliers, and the overseas suppliers deliver the commodities to consumers. Cross-border logistics is usually completed by professional cross-border logistics companies.
2. Bonded model. In this model, cross-border e-commerce enterprises will import commodities and goods in a wholesale way from overseas suppliers and store them in a bonded warehouse in one of the pilot cities. When there is an order from consumers, the commodities and goods will be delivered by logistics companies from the bonded warehouse to the consumer.

With the cancellation of tax-exemption policies, the bonded model is affected more greatly than the overseas model. The profits and revenues under the bonded model are more dependent on the so-called 'explosive' goods, which focuses more on quantity than quality. After the New Deal, the collection of tariffs, import VAT and excise—collectively known as the 'comprehensive cross-border e-commerce tax'—replaced the traditional postal tax. Without a tax-exemption policy, there is an increase on costs of cross-border e-commerce retail commodities and goods, which will significantly impact enterprises using the bonded model.

In terms of the overseas direct mail model, however, the adjusted postal tax remains similar as there is still some tax-exemption for goods under a certain value. Even if the majority of commodity prices increases, the impact on the goods imported through overseas direct mail model is much less than that through the bonded model. Therefore, many domestic cross-border e-commerce enterprises will transfer their operation from the bonded model to the overseas direct mail model.

2.3.3 Benefits of new policies

The new policies are conducive to safeguarding the state tax, improving the efficiency of supervision, and promoting fair competition in the e-commerce industry. The New Deal has increased the tax burden of the entire cross-border e-commerce industry, which is designed to safeguard the national fiscal revenue (Cui & Jiang, 2015). The tax exemption for goods under 50RMB has been cancelled, making the ethically 'grey' practice of splitting larger purchases into small parcels to avoid tax is difficult to achieve, largely blocking the original tax loopholes. As there is no longer such a large number of fragmented small parcels, supervision pressures of customs and other departments is eased, reducing regulatory costs and improving clearance speed of cross-border c-commerce commodities and goods.

The New Deal defines the 'trading' attribute of cross-border e-commerce retailers' imports, which is distinguished from the 'goods' that are traditionally subject to postal tax, clarifying the 'exclusive' tax system applicable to retail imports of cross-border e-commerce. The clarification of grey areas in the business helps to avoid unfair competition.

3. Statistical analysis

The impact of the New Deal on the cross-border e-commerce industry has been analysed statistically. For comparison, the study selected the average data from 2015, before the implementation of New Deal, and data after the implementation of New Deal. The year 2015 is considered to be the most significant year of development of cross-border e-commerce business, making the relevant data statistically comparable.

3.1 Changes in average daily customs clearance

The average number of votes before and after the New Deal on the average of the two pairs of sample analysis is performed; the results are shown in Table 2. Through the t-value and t-double-tail critical, we can see that at 5 per cent of the significant level, the cross-border e-commerce daily average clearance votes did not significantly change after the introduction of the New Deal policies. In fact, in some pilot cities, the number of single-day clearances increased. This may be due to the suspension of the implementation of the New Deal on the elimination of cross-border e-commerce business. It can also be seen that the impact of the New Deal on the cross-border e-commerce business is not large.

Table 2: Mean analysis of double samples of average daily customs clearance of cross-border e-commerce before and after New Deal

	Before the New Deal	**After the New Deal**
Average	190.4024	192.6307
Variance	72990.15	33302.63
Observations	6	6
Poisson correlation coefficient	0.524199	
Assuming an average difference	0	
df	5	
t Stat	–0.02336	
P(T<=t)	0.491134	
T single tail critical	2.015048	
P(T<=t)	0.982269	
T double tail critical	2.570582	

3.2 Changes in average daily taxation

A pair of two samples of the average value of the daily taxation of the New Deal is analysed. The results are shown in Table 3. Through the t-value and t-tail critical, we can see that at the 5 per cent significance level, the average daily taxation of the cross-border e-commerce after the New Deal improved significantly. This statistical result illustrates two issues: the import volume did not significantly decline and the tax burden increased.

Table 3: Mean analysis of double sample of average daily taxation of cross-border e-commerce before and after New Deal

	Before the New Deal	After the New Deal
Average	15.81576	96.90406
Variance	239.6132	2387.971
Observations	7	7
Poisson correlation coefficient	0.660951	
Assuming an average difference	0	
df	6	
t Stat	–5.31773	
P(T<=t)	0.0009	
T single tail critical	1.94318	
P(T<=t)	0.001799	
T double tail critical	2.446912	

3.3 Changes in average tax rate

The average value of tax rate of the New Deal is analysed; the results are shown in Table 4. Through the t-value and t-tail critical, we can see that at 5 per cent of the significance level, the average tax rate of cross-border e-commerce after the New Deal has been significantly improved. This shows that the tax burden of cross-border e-commerce after the New Deal is greater than before.

Table 4: Mean analysis of double samples of average tax rate of cross-border e-commerce before and after the New Deal

	Before the New Deal	**After the New Deal**
Average	0.02366	0.12332
Variance	0.000327	2.54E–05
Observations	5	5
Poisson correlation coefficient	0.116814	
Assuming an average difference	0	
df	4	
t Stat	–12.246	
P(T<=t)	0.000128	
T single tail critical	2.131847	
P(T<=t)	0.000255	
T double tail critical	2.776445	

3.4 Changes in average daily import volume

A pair of two samples of the average value of the average import and export business volume is performed before and after the New Deal; the results are shown in Table 5. Through the t-value and t-tail critical, we can see that at the 5 per cent significance level, there is no significant change in the average import volume of cross-border e-commerce business.

Table 5: Mean analysis of double samples of average daily import volume of cross-border e-commerce before and after the New Deal

	Before the New Deal	After the New Deal
Average	168.6855	148.771
Variance	64126.51	34265.72
Observations	7	7
Poisson correlation coefficient	0.519063	
Assuming an average difference	0	
df	6	
t Stat	0.236272	
P(T<=t)	0.41054	
T single tail critical	1.94318	
P(T<=t)	0.82108	
T double tail critical	2.446912	

3.5 Changes in the average daily bonded import volume

An analysis of the daily average bonded import volume before and after the New Deal was performed; the results are shown in Table 6. Through the t-value and t-tail critical, it can be seen at 5 per cent of the significance level, cross-border e-commerce daily average bonded import volume has no significant change.

Table 6: Mean analysis of double samples of average daily bonded import volume of cross-border e-commerce before and after the New Deal

	Before the New Deal	After the New Deal
Average	501.7108	558.5253
Variance	183911.3	202472.8
Observations	8	8
Poisson correlation coefficient	0.977705	
Assuming an average difference	0	
Df	7	
t Stat	–1.68913	
P(T<=t)	0.067523	
T single tail critical	1.894579	
P(T<=t)	0.135046	
T double tail critical	2.364624	

3.6 Changes in average daily export volume

A total of two pairs of sample analyses of the average daily export volume of cross-border e-commerce in pilot areas was performed before and after the New Deal. The results are shown in Table 7. Through the t-value and t-tail critical, we can see that at 5 per cent significance level, the average daily export volume of cross-border e-commerce has not changed significantly.

Table 7: Mean analysis of double samples of average daily export volume of cross-border e-commerce before the New Deal

	Before the New Deal	After the New Deal
Average	698.8265	247.606
Variance	579550.6	40258.36
Observations	4	4
Poisson correlation coefficient	0.90747	
Assuming an average difference	0	
df	3	
t Stat	1.541831	
P(T<=t)	0.11039	
T single tail critical	2.353363	
P(T<=t)	0.220779	
T double tail critical	3.182446	

4. Discussion

The development of cross-border e-commerce in different pilot cities is not balanced, because the local government and cross-border e-commerce enterprises have made different strategic layouts and selections according to different customs supervision models (traditional export, special export zone, direct purchase and import, bonded import), while at the same time the parameters of customs supervision and facilitation innovation are also different. That is why there are different priorities and characteristics in the import and export of cross-border e-commerce in the pilot cities, whose respective experiences and lessons are worth learning from.

The impact on import and export of cross-border e-commerce by the New Deal is not that significant. After the New Deal, due to the one-year buffer period for cross-border e-commerce, cross-border e-commerce recovered rapidly. Before and after the New Deal, the average daily import clearance, average daily bonded import volume, and the average daily export volume in these pilot cities did not significantly change; cross-border e-commerce is developing steadily.

After the New Deal, the tax burden of cross-border e-commerce enterprises increased significantly. This is due to the introduction of tariff, VAT and excise on cross-border e-commerce goods, with only limited concessions and no tax-exemption amounts, while there was once a 50RMB tax-exemption amount for postal tax. So, the tax burden has risen remarkably, and the tax revenue of each pilot city has also been significantly increased. This shows that after the New Deal the tax policy and the tax environment has undergone significant changes.

5. Conclusion and recommendations

The original intention of the New Deal was to stimulate domestic consumption, promote fair competition and strengthen the import tax administration. But the New Deal did not allow a long enough transition period and cross-border e-commerce enterprises were too late to modulate their information system, which resulted in an increased tax burden. The positive lists lack the interpretation of authoritive policy, which makes the parties reach different understandings; and the new single purchase limit is too low, which deters citizens from buying some high-end cosmetics and other goods.

Based on our analysis, we make the following suggestions:

5.1 Implement unified cross-border e-commerce management standards to avoid 'policy depression'

There are two factors that led to the unbalanced development of cross-border e-commerce in the eight pilot cities. On one hand, local governments and cross-border e-commerce made different strategic choices in four different customs supervisions: traditional export, special export zone, direct-purchase import and bonded import zone. On the other hand, pilot cities and cross-border e-commerce enterprises had their own management system with different standards. Each pilot city designed a self-contained management pattern of cross-border e-commerce according to the local characteristics. Although it is conducive to local conditions to solve practical problems to some degree, it also affects the effective implementation of the law enforcement of unity and may even cause relative 'lowland' regulation.

The research found that in the B2C cross-border e-commerce, 'three single data' (orders, bills of lading, payment orders) management is different. Some pilot cities require enterprises to send 'three single data' for an automatic verification audit, while other pilot cities do not have the same requirements, so companies only need to provide 'two single' or even 'one single' data. Some pilot cities have strict management policies about splitting a larger order into smaller ones, and strictly monitor the accuracy of the price enterprise offer, while other pilot cities do not manage this behaviour as closely.

According to reports of cross-border e-commerce, the policy gap between pilot cities brought vicious competition in cross-border e-commerce, and may even produce the phenomenon that bad money drives out good. Given that cross-border e-commerce lacks the top-level design (Xiang & Liangting, 2016), it is recommended that the competent authorities study the direction of China's cross-border retail import development, formulate supporting policies for the decisive role of market in resource allocation, know the medium- and long-term policy guidance on cross-border retail import and improve the top-level design of cross-border e-commerce, so as to guide the overall situation, to coordinate cross-border e-commerce to become a policy of highland. The introduction of relevant operational procedures and implementation guidelines helps to improve the refinement of the traditional operation process, so as to continuously improve the implementation of cross-border e-commerce supervision to ensure that management has clear rules to follow.

5.2 Set a buffer period to ensure that cross-border e-commerce supervision policy has a 'soft landing'

Data analysis shows that the New Deal has little impact on the import and export of cross-border e-commence. A major reason for this is that cross-border e-commerce appeared to be a 'circuit breaker' phenomenon. The State Council provided ten pilot cities with a first one-year buffer policy period, which means the New Deal did not need to be implemented temporarily. Other positive lists and tax policies remained the same, allowing cross-border e-commerce to recover quickly and develop steadily.

At the same time, because the category of the goods in the 'positive list' (although the two lists have been published) is supposed to be less than that in the New Deal, these changes directly affected the business of some enterprises. To this end, we suggest continuing to modulate the cross-border e-commerce retail import list, satisfying the demand of domestic consumers as much as possible and increasing purchasing variety, which can be supervised by regulators.

In order to further support the smooth transition and transitional development of cross-border e-commerce, we recommend keeping policy relatively stable and giving pilot cities and enterprises of cross-border e-commerce some time to adjust during the buffer period. It will boost the features of the new trade forms and the country's policy to encourage and support the healthy development of cross-border e-commerce. It is also helpful for e-commerce enterprises to adjust their supply chains, ensuring a stable transition. At the same time, as the national 'e-commerce law' and 'tariff law' is in the process of development, the proposed transition period should extend until the relevant laws and regulations are introduced.

5.3 Provide tax incentives to support foreign trade transformation

Data analysis shows that, after the New Deal, the tax burden of cross-border e-commerce enterprises is increasing, and the tax policy and tax environment have changed significantly. In the short term, because the new tax policy doesn't set a buffer period, cross-border e-commerce enterprises can't deal with it well and panic, so some enterprises tend to keep a wait-and-see attitude and their short-term business could well decrease. In the long term, after all sectors generally accept and adapt to the new tax policies, the policies can stimulate domestic demand and encourage import purchases, while favourable tax bonuses can mean that tax policies guide customers more effectively and online shopping bonded import services will enter a new development period and realise rapid growth.

Because of the openness and transparency of the internet, cross-border e-commerce can decrease business cheating and improve business behaviour. Therefore, moderate tax discounts should be provided to support the development of e-commerce. An assessment index system of the goods with favourable benefits from e-commerce, such as products with greater demand that require strict quality management (e.g. infants' products, milk powder and food) should be introduced. At the same time, policy targets can be combined to improve the global reputation of China's manufacturing products and provide favourable tax policies for cargo exportation.

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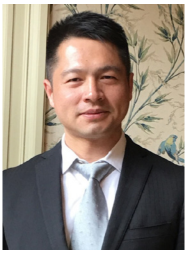
Notes

1 The study is a staged achievement of Shanghai Customs College research and innovation team on *Customs Supervision of Cross-Border E-Commerce*.

2 In fact, postal tax in China is not an independent tax, but a simple form of import tax collection.

Xiang Gao



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