

Understanding tax and customs policies for retail export e-commerce in China

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Abstract

Cross-border e-commerce (CBEC) is continuing to grow rapidly around the world. China is experiencing a two-digit growth rate for its CBEC industry, even though it has been hit hard by COVID-19. From the two business models of CBEC (export and import) in China, retail export is growing faster than retail import. The trade volume of retail export is also much larger. Therefore, it is timely to review and summarise the tax and customs policies of CBEC retail export in China. This paper examines the tax and customs policies for CBEC export in China, and in particular, retail export. First, it provides an overview of the development of CBEC in recent years in China and then gives a detailed discussion of tax policies, which mainly includes value-added tax (VAT) and corporate income tax (CIT). The details of customs policies are then covered, as are two more points of retail export: statistics and the negative list. It ends with a conclusion and outlook.

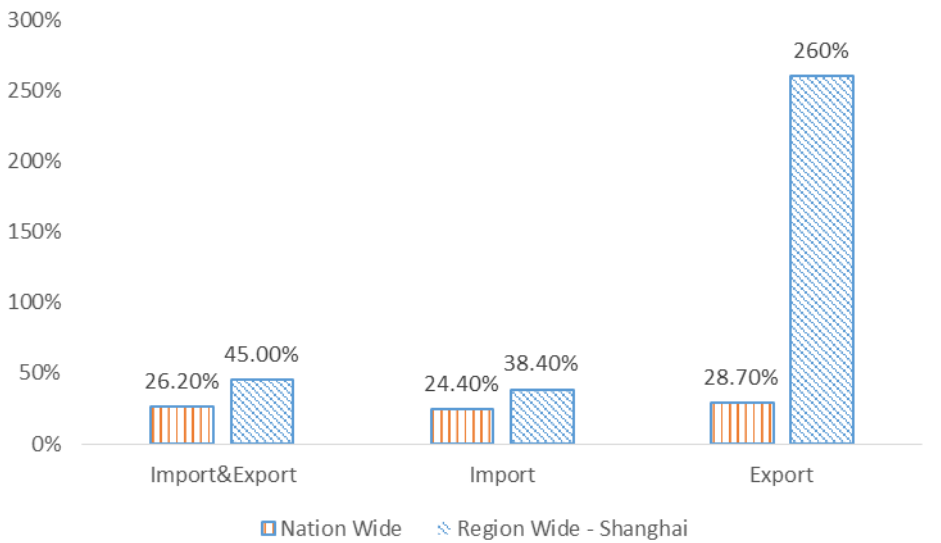
1. Overview

Though hit hard by the global spread of COVID-19, strong consumer demand in mainland China and around the world for imported products has continued to fuel the expansion of cross-border e-commerce (CBEC). CBEC provides an easy and fast way for consumers to buy overseas products even in quarantine. Statistics from the General Administration of China Customs (GACC) show that in 2018, retail imports and exports in China via the Customs' CBEC administration platform¹ were worth RMB134.7 billion (US\$19.2 billion), up about 50 per cent from the previous year. Of these, retail exports increased 67 per cent to RMB56.1 billion (US\$8 billion), while retail imports rose 39.8 per cent to RMB78.6 billion (US\$ 1.2 billion). In 2019, the combined value of e-commerce retail imports and exports soared by a further 41 per cent to RMB186.1 billion (US\$26.6 billion) which is five times that of 2015, with the average annual growth rate up to 49.5 per cent.² In the first five months of 2020, retail imports and exports grew 20.9 per cent to RMB 71.7 billion (US\$10.2 billion) and the number of orders rose 53.6 per cent to 710 million orders.

Region-wise, the import and export of CBEC in Shanghai reached RMB 4 billion (about US\$570 million) with an average of 85,000 orders per day in the first half of 2020 (January to June).

Figure 1 shows the quick growth of both imports and exports in the whole nation and its economic centre, Shanghai, all showing growth at the two- or even three- digit level. The CBEC industry has now become a very important complement to general trade in China.

Figure 1: CBEC import and export growth rate of China (nationwide) and Shanghai (regionwide) in the first half of 2020



Source: Shanghai CBEC Public Service Platform, <https://www.shcepp.com>

Note: 'Import&Export' denotes the sum of both import and export.

The quick growth of the CBEC industry in China can be linked to supportive measures and institutional arrangements like the Comprehensive Pilot Area (CPA) for the industry, as defined in Li (2019a). These CPAs were officially established and equipped with various resources to fully support the development of the industry and thus serve as incubators of newly-built CBEC firms and boosters for developing ones.

In 2019, 6,000 new CBEC firms were created and in-area CBEC firms³ built up to 1,200 overseas warehouses which serve as temporary storage facilities in foreign countries for bulk transportation from China. This improves the shopping experience for foreign consumers by allowing faster and safer deliveries than from China-based warehouses. This also largely reduces the logistic costs for both firms and consumers.

Besides retail import, CBEC retail exports (business-to-consumer, B2C) is also a sophisticated business model in China. Every day, thousands of CBEC retail exporters in China export millions of dollars' worth of goods to the rest of the world. CBEC bulk exports (business-to-business, B2B), however, are just starting in China. Therefore, in this paper we discuss CBEC retail exports in detail and briefly mention some tentative trials of Chinese CBEC bulk exports.

2. Tax policies

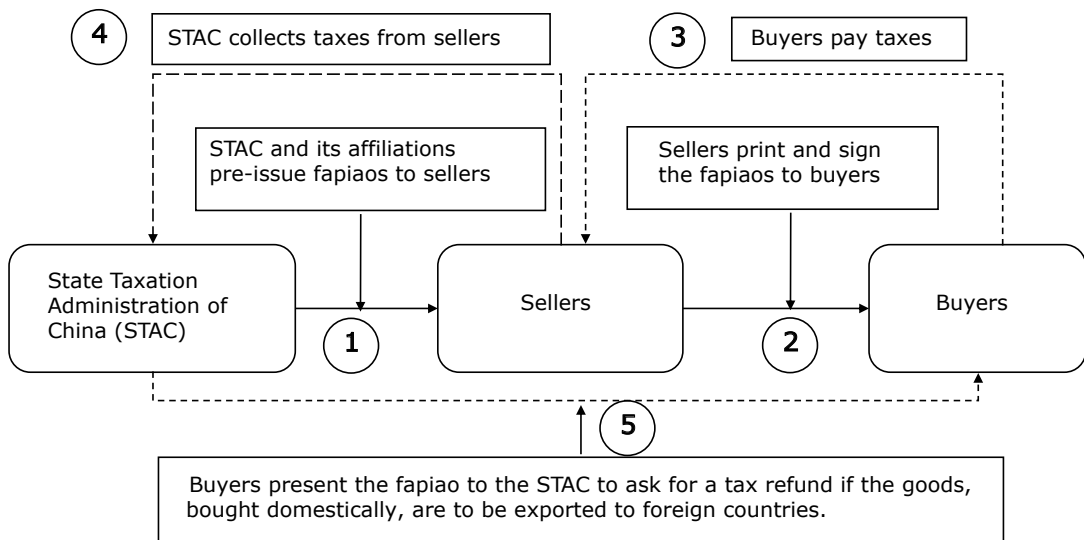
Before introducing the tax policies of CBEC retail export, a term called ‘fapiao’ must be explained before it is possible to fully understand the special tax policies for the industry.

2.1. Fapiao and VAT

A ‘fapiao’ is an official, legal type of invoice or receipt issued by the State Taxation Administration of China (STAC). It is proof of domestic trade between a buyer and seller and is used for taxation purposes (mainly for value-added tax, VAT, and consumption tax). Only fapiao are officially acknowledged in China – even receipts signed by the seller are not officially acknowledged.⁴ Fapiao have a standard format around the country and are preissued to sellers by the STAC (State Taxation Administration of China), which are very different from the receipts commonly seen and used in the western world. Prices, quantities, names of goods and tax amounts for each good or service are listed on the fapiao. There are also identification numbers, QR codes and information for both sellers and buyers involved in the trade. There are regulations and information systems related to fapiao to ensure their smooth issuance and circulation. Buyers must pay both the cost of the goods or services and the tax owing at the same time.

For each fiscal year, the STAC collects taxes (mainly VAT) from sellers depending on how many fapiao the sellers have issued to buyers (see Figure 2).

Figure 2: How fapiao work as a tool to collect tax (VAT and consumption tax) in China



Note: Sellers and buyers trade domestic goods and the buyers then export the goods bought domestically to foreign countries. Thus, the domestic buyers are exporters.

For every single copy of a fapiao signed by the seller (usually stamped in red with the seller’s name) given to the buyer, the seller must later pay the tax on this trade to the STAC. In this way, the STAC collects tax (VAT) in China. If the buyer exports the goods they bought domestically to another country, the buyer then uses the fapiao to get a tax refund from the STAC. Though the buyers have the right to ask for a fapiao for every single item they buy, there are numerous reasons and cases when buyers cannot get fapiao for some of the goods they buy.⁵

If there are no fapiaos issued for a trade between sellers and buyers, it usually means that the STAC will fail to collect the tax from this single trade since both seller and buyer do not have the incentive to hand in the tax for this trade afterward.

Nowadays, fapiaos are mainly issued electronically though paper forms are still seen in some cases. Electronic issuance of fapiaos greatly facilitates their circulation and verification of their accuracy, as well as reducing criminal offences and fraud.

2.2. Tax policies in CBEC Comprehensive Pilot Areas

As pointed out by Li (2019a), the central government of China is setting up CBEC Comprehensive Pilot Areas (CPAs) around the country as an institutional arrangement to promote the development of the CBEC industry where domestic buyers export domestic goods overseas. As part of this arrangement, tax policies are of great importance and concern. For retail export CBEC firms, there are two main taxes applied: VAT and corporate income tax (CIT). CBEC firms can operate in and out of CPAs. But only in-area firms (firms that operate in CPAs) can enjoy preferential tax policies, such as exemption of VAT and consumption tax on retail exports and reduction of CIT rates (from as high as 25% to 4%).

Below is an introduction to the recent advances in setting up new CBEC CPAs around China, followed by details on the preferential tax policies that only apply to the in-area firms.

2.2.1. Advances in CBEC CPAs

Li (2019a) provides a brief review on the first three batches of CPAs which totalled 35 since the first pilot area was set up in Hangzhou, the capital city of Zhejiang Province, in 2015.

Much advanced at the end of 2019 and the middle of 2020. Two more batches of CPAs were set up bringing the total number of CPAs to 105 (See Table 1).

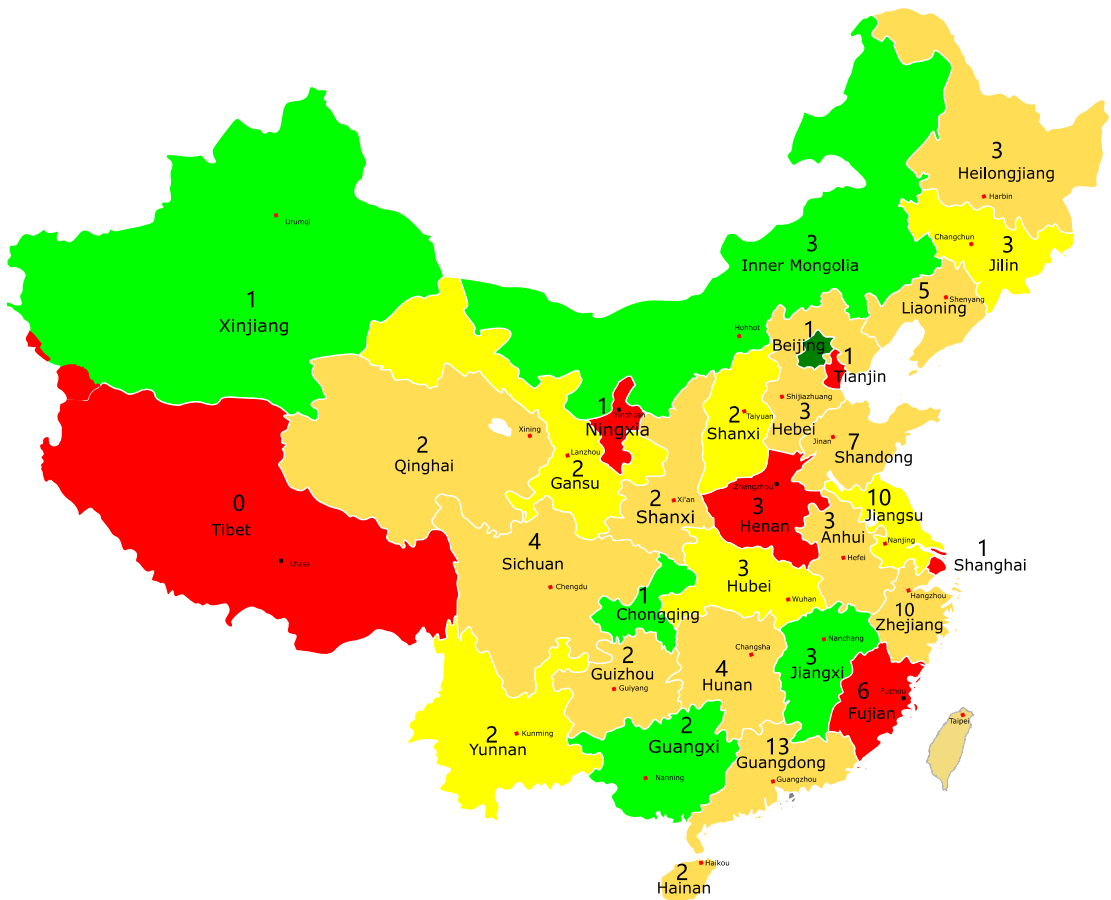
Table 1: Cross-border e-commerce Comprehensive Pilot Cities/Areas⁶ (CPAs)

Batch no.	Number of CPAs per batch	Date initiated
1	1	7/3/2015
2	12	6/1/2016
3	22	8/8/2018
4	24	24/12/2019
5	46	6/5/2020
Total number of CPAs	105	

Source: collected from www.gov.cn

CPAs now cover 30 provinces, municipalities, and autonomous regions (except Tibet) around the Chinese mainland. Most CPAs (indicated by the numeral following the location) are in the eastern coastal region of the country, including the capital of China, Beijing (1), the economic centre of China, Shanghai (1), Guangdong (13), Zhejiang (10), Jiangsu (10), Shandong (7), Fujian (6) and Liaoning (5) (Figure 3). Guangdong has by far the most CPAs and the largest trade volumes of CBEC import and export, with about one-third the total of China

Figure 3: Geographical locations of 105 cross-border e-commerce comprehensive pilot areas



Note: Large fonts indicate the province names and small fonts with dots indicate the capital city of that province. The numbers indicate how many CPAs are in that province. The map is for illustration purposes only and does not demonstrate the precise boundaries.

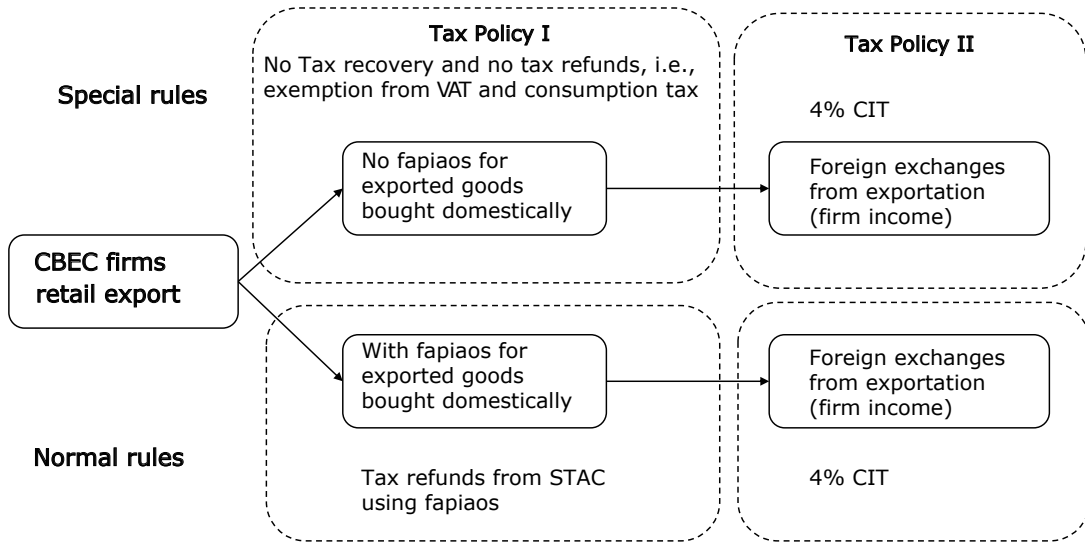
2.2.2. Preferential policies in CBEC Comprehensive Pilot Areas

China has been rolling out a series of measures to promote CBEC development, especially in the CPAs. Among them are major preferential tax policies.

Before we proceed, there are two scenarios that we should keep in mind. For every export, the exporters (domestic buyers) may or may not get the fapiaos from the domestic sellers for the goods they bought to export.⁷ If not, this usually means that the STAC will fail to collect tax for the goods

traded between domestic sellers and buyers.⁸ When the exporters claim foreign exchange as income from exports, the STAC will ask exporters for copies of fapiaos. If no fapiaos are available, the claim will be problematic or even illegal because the STAC will fail to collect tax from the domestic trade. Nowadays, a lot of CBEC retail exports do not have domestic fapiaos. For the exported goods which were bought domestically, however, there are tax refunds available if fapiaos are collected for the goods, although the refunds may be partial sometimes. Thus, recovery of tax for the cases where fapiaos are not available seems unnecessary. In these cases, the government recently rolled out a simple measure to simplify the solution to this problem (see Tax Policy I in Figure 4 where it is called a ‘special rule’ as compared to a ‘normal rule’ where fapiaos are available).

Figure 4: CBEC retail export and tax policies



Even though under both the special rule and the normal rule the tax policies are almost identical, the special rule is extremely important for CBEC retail export firms. Now, export firms only need to hand in 4 per cent (CIT) of the income from their exports to fully comply with the STAC rule.

Policies on VAT and consumption tax exemption

According to the STAC (No. 103, 2018, jointly issued with GACC and other two administrations, Tax Policy I) (State Taxation Administration of China [STAC] (2018),⁹ if the exports of a CBEC retail export firm have not yet obtained fapiaos, which are a valid proof of purchase, but satisfy certain criteria, then the exports can still be exempted from VAT and consumption tax. The criteria are:

1. That the CBEC retail export firm is registered in a CPA and has registered the date of its export, description of goods, measurement unit, quantity, unit price, and amount on the CBEC online service platform which is at the place as the firm registration (that is, the location of the CPA).¹⁰
2. That the CBEC retail export declaration formalities are completed with Customs at the CPA location.
3. That the exports do not fall under the categories of goods for which an export tax refund (exemption) is clearly removed by the Ministry of Finance (MOF) and STAC.

Pilot scheme on assessment of CIT for retail export firms

According to STAC (No. 36, 2019, Tax Policy II) (STAC, 2019),¹¹ any CBEC firms in a CPA that meet certain criteria shall be subject to the CIT pilot assessment scheme, where the taxable income rate may be lower (4%) compared to the general cases where the rate could be as high as 25 per cent. The criteria these firms must follow are:

1. That the firm is registered in a CPA and the date, name, unit of measurement, quantity, unit price, and amount of the exported goods are registered on a CBEC online service platform where the firm is registered (that is, the location of the CPA).
2. That the CBEC retail export declaration formalities are completed with Customs at the location of the CPA.
3. That there are no fapiao (that is, valid purchase proof) for the exported goods, and the export is compliant with Tax Policy I, which means that the exported goods are exempted from VAT and consumption tax.
4. In addition, if the CBEC firms meet the conditions for preferential policies for small low-profit firms, they may enjoy the accompanying preferential CIT policies. The firm can enjoy preferential policies for tax-exempt income if the income it earns is tax-exempt as stipulated in Article 26 of the Enterprise Income Tax Law of the People's Republic of China.

3. Customs policies

Apart from the preferential tax policies discussed above, customs facilitation is another institutional arrangement in CPAs to promote the development of the CBEC industry. The GACC has rolled out four different customs codes for different types of exports including retail (B2C) and bulk export (B2B) (Table 2).

Table 2: Customs codes for CBEC retail (B2C) and bulk (B2B) exports in China

Trade model	B2C (retail export)		B2B (bulk export)	
Customs code	9610	1210	9710	9810
Business model	Direct export	Bonded export	Business-to-business export	Overseas warehouse export
Explanation	Firms export from bonded zones directly to overseas consumers	Firms export into bonded zones when orders are from overseas consumers	Firms export to overseas firms	Firms export to overseas warehouses (owned or rented)
GACC information system	Retail Export Cross-Border E-Commerce Unified Edition (China Customs' cross-border e-commerce official administration platform for export)		Single Window of International Trade ¹² Internet + Customs ¹³	

Note: Customs codes are also called regulatory or supervision codes, which are just for regulatory purpose, such as statistics and identification of trade model.

The first trade model is B2C which includes two business models: one is direct export (customs code 9610, see notes in Table 2). Firms in the CPAs will deliver the packages directly to the overseas consumers using various shipping channels, including express carriers, logistic firms or even mail carriers.

The other is 'bonded export'. The CBEC firm will first bulk export goods to bonded zones in China. Once bulk-exported to bonded zones, the CBEC firms can ask for a tax refund from the STAC. The firm then delivers the retail packages from the bonded zones to overseas consumers much more quickly than direct exports since customs formalities are almost finished once the goods have been exported to bonded zones. This is similar to bonded zone retail imports as stated in Li (2017; 2019a). Both codes 9610 and 1210 are sophisticated and popular business models now in China. The GACC has also deployed an information system called 'Retail Export Cross-Border E-Commerce Unified Edition' to deal with CBEC export in the whole country.

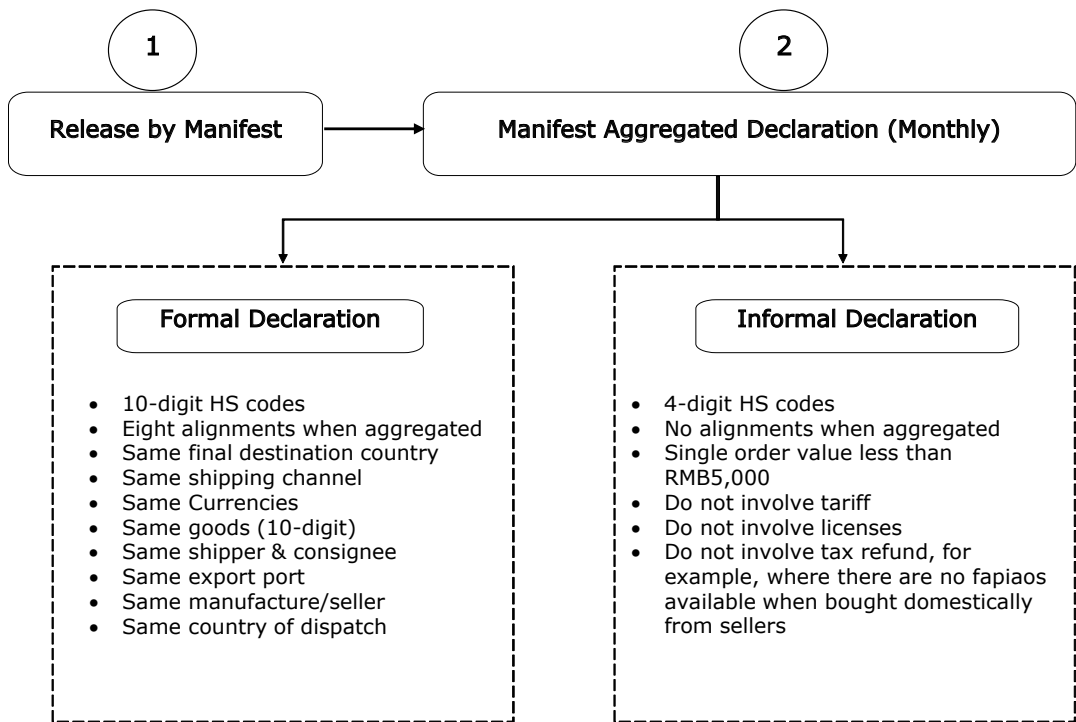
For B2B, there are two customs codes. One is 9710 which means CBEC firms in China directly export to firms in other countries. The other one is 9810 which means the CBEC firms in China export to overseas warehouses which may be rented or owned. For codes 9710 and 9810, these two business models are just beginning to roll out. On 1 July 2020, an announcement was made by the GACC about these two models (General Administration of China Customs [GACC], 2020a). The announcement involved tentative measures for CBEC bulk export firms to do B2B business in 10 trial customs ports.¹⁴ For the first month (1 July to 1 August) after rolling out the measure, the statistics show that the total number of orders reached up to 3.9 million with the top three destinations being the USA, Europe and southeast Asia. The export commodities included mainly clothing, shoes, hats, household goods, electronic accessories, fitness equipment and other consumer goods. The GACC's information system for dealing with B2B export is different from retail export. Two options are provided as shown in Table 2.

However, further measures are needed to support the B2B model in the future. For example, the VAT and CIT issues for firms that do not have fapiaos for the goods they exported, as we saw in retail export. According to a questionnaire by the GACC (unpublished) early in 2020, 70 per cent of B2B firms wish to have the same tax rules as those that apply to retail import; 67.5 per cent of B2B firms wish to have simplified procedures for customs clearance; and 63 per cent of B2B firms wish to have tax-free conditions for returns or unsold goods.¹⁵

The facilitation of customs procedures in the CPAs for CBEC retail export firms is significant. Like retail import, three kinds of customs declaration information are required for every single order although it may be split into a few packages in some circumstances: online goods order, payment form and logistic information. The customs formalities have also been greatly simplified, with the GACC adopting a 'Release from Manifest' pattern which greatly speeds up the release of packages and reduces the firm's costs.

For clearance and statistical purposes, the GACC requires the firm to file an aggregated monthly declaration based on what the firm exported in the previous month using manifests. There are two methods of doing this (see Figure 5), the first being a formal declaration. This declaration is like the declaration of general trade and thus is much more complicated than the second method – the informal declaration – which is mostly adopted by CBEC retail firms nowadays in China. There are, however, some restrictions on informal declarations. For example, they require that the single order does not exceed RMB5000 (about US\$714) and does not involve, for example, export tariffs, licences and tax refunds. For classification of this informal declaration, manifests are used directly and only four digit Harmonized System (HS) of tariff nomenclature (HS) codes are needed instead of the 10 digits required for formal declarations.

Figure 5: Customs release and clearance of CBEC retail exports



In response to the concerns of firms, the GACC (GACC, 2020b) put forward a measure about goods return for exports. This measure was effective from 27 March 2020. CBEC export firms or their customs declaration agents may apply to the GACC to engage in goods returns for both retail and bulk exports, as listed in Table 2. They must set up a goods return monitoring system and make sure that the returns are the goods originally exported.

4. Statistics and the negative list

4.1. Statistics

Since July 2018, the GACC's CBEC information system, *Retail Export Cross-Border E-Commerce Unified Edition*, began its operation and official data about CBEC exports became available.

Nowadays, only a small fraction of CBEC retail exports is administered by the GACC through its information system. Many CBEC retail exports are unknown to the GACC and thus are not included in customs statistics. Many export packages are exported as personal gifts and articles using mail and express carriers as pointed out by Li (2019a; 2019b).¹⁶

To improve the accuracy of the statistics, the GACC has done a lot of work to include as many CBEC import and export packages that are not administered by them as possible. Based on some real export data, the GACC first dynamically and periodically identified how many packages were actual CBEC packages shipped through the mail and express carriers not connected with GACC's CBEC information system.¹⁷ Then the ratio of how many of these packages were CBEC packages was obtained. Third, the average value of retail export packages was used to estimate an overall value for these un-administered packages. The data has been estimated since January 2019 but is not yet publicly available.

4.2. The negative list

For both retail and bulk exports, there is no positive list for the commodities that can be exported. There is only a negative list which is the opposite of the positive list for CBEC retail imports in China.¹⁸ Similar to general trade, under this negative list, restrictive or licensed commodities need permission or licences for export, and prohibited items are not allowed to be exported.

5. The way forward

The CBEC industry continues to flourish around the world. Both CBEC imports and exports have grown at two-digit speeds in recent years comparing sharply with the general trade in China which was hit hard by COVID-19.

China attaches great importance to the development of this industry. Up to 105 CPAs were set up in the last five years with various institutional arrangements to support the industry. For the time being, there are not only preferential tax policies regarding VAT and CIT, but customs policies are also being rolled out to support the growth of CBEC retail export, but not bulk export. Hence the CBEC bulk export industry is still in its infancy in China.

The GACC initiated one tentative customs measure to support bulk export. The number from the first month of bulk export is promising. More measures involving tax policies, especially when fapiaos are not available as in the case of retail export, and details of customs facilitation measures applicable to all customs ports around the country, are yet to be rolled out.

China has initiated many supportive measures and institutional arrangements to promote the fast development of its CBEC industry. The supportive measures and institutional arrangements include setting up CPAs, preferential tax policies concerning VAT and CIT, customs facilitation measures including specialised information systems and customs supervision codes for statistics purposes. With more supportive measures from the government in the future, the CBEC industry will continue to flourish in China and thus benefit the rest of world.

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Notes

- 1 See Table 2, GACC information system.
- 2 See official data: http://www.gov.cn/xinwen/2020-04/13/content_5501756.htm (in Chinese)
- 3 'In-area' means in the CPAs (the comprehensive pilot areas). Zhang (2020) refers to CPAs as Integrated Pilot Zones. More information can be found in Section 2.2.
- 4 Fapiaos are different from receipts in several ways, though there are similarities. First, fapiaos are issued by the STAC and have a fixed format. Receipts are issued by sellers only and do not have fixed formats. Second, only fapiaos are admitted by the STAC for tax purposes, but not receipts.
- 5 For example, a buyer simply does not ask for a copy of the fapiao when buying the goods. In other cases, although illegal, the buyer and seller will negotiate a lower price for the goods traded if a fapiao is not involved.
- 6 Most CPAs are city-based. CPAs like Beijing, Shanghai, Tianjin and Chongqing, however, are province-level municipalities that are under the direct control of the state council. For this kind of municipality, each has many small cities. Therefore, 'area' or 'zone' is used to accurately describe this CPA.
- 7 In this paper, we only consider the cases where exporters export domestic goods.
- 8 Generally speaking, there will be no ground for the exporter to legally claim foreign exchange from export since they do not have the fapiaos to show the STAC how this income was derived. That is, fapiaos are legal proof for claiming income from export. Uncollected taxes will be recovered later.
- 9 This announcement was effective from 1 October 2018.
- 10 There are two points here. One is that the CBEC online service platform is recognised by the GACC. The other one is that this platform should connect to GACC's online information systems to exchange data for the export.
- 11 This announcement was effective from 1 January 2020.

- 12 <https://www.singlewindow.cn/>
- 13 <http://online.customs.gov.cn/static/pages/alllistitems.html>
- 14 The ten customs ports are Beijing, Tianjin, Nanjing, Hangzhou, Ningbo, Xiamen, Zhengzhou, Guangzhou, Shenzhen and Huangpu Customs.
- 15 Interview data show that the average return rate for CBEC export is about five per cent. For clothing, the rate may be high as 10 per cent. Considering the actual logistic costs of returns, the real return rate is about three per cent.
- 16 There is an unconfirmed figure for the portion of CBEC import and export that is unknown to the GACC. The figure is about 90 per cent, thus only 10 per cent is currently administrated by the GACC.
- 17 For import statistics, the GACC used interview data due to lack of actual data to estimate the ratio of import packages that were real CBEC import packages.
- 18 A big concern about the negative list for CBEC imports is that it will be a threat to general trade, since CBEC imports enjoy preferential tax policies in contrast to general trade. The prices of CBEC imports are generally lower than that of goods imported under general trade. Thus this will create an unfair market environment for the two kinds of importers: CBEC importers and general trade importers. Hence, a positive list was adopted for CBEC import in China.

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