Source: South China Morning Post

Date: 9/4/2018

ECONOMY

Beijing acts again to cut import tax on personal items

Amanda Lee
amanda.lee@scmp.com

China has cut a controversial tax on personal items bought overseas, ranging from iPads to books, in an effort to boost consumer confidence.

The government will slash the "tax on baggage and articles accompanying incoming passengers and personal postal articles", a three-in-one tax consisting of value-added tax, consumption tax and import duties on April 9, according to a notice posted online by the Ministry of Finance yesterday.

The tax rate on products including computers, foodstuffs, gold and silverware, furniture and medicines would be lowered to 13 per cent from 15 per cent. The rate for commodities including textiles, electric appliances and bicycles would be cut to 20 per cent from 25 per cent, it said.

The tax rate for wine, cigarettes, jewellery, golf equipment, luxury watches and high-grade cosmetics would be kept at 50 per cent.

This is the second round of tax cuts on consumer products bought overseas after Beijing initially lowered the rate on November 1. The last round saw the tax on wine and cigarettes slashed from 60 per cent to 50 per cent, while the duty on textiles and home appliances was cut from 30 per cent to 25 per cent.

The decision was announced by Premier Li Keqiang at a routine State Council meeting last week, the statement said. The cut was designed to boost imports and consumer confidence, it added.

"For those products that are used by the general public, we must effectively reduce the customs tax rate," Li said in the statement. "Relevant departments will further study how to lower the price of necessary imports for the country."

Hong Hao, head of research at Bank of Communications International, said while the cut would boost consumption, it would not provide a massive lift to consumer confidence, which had been hit by the US-China trade war and a sluggish domestic economy.

"Two percentage points [cut] will not make a lot of difference," Hong said, referring to the tax cut on some products. "It is a difficult situation now [for consumption]. Perhaps a recovery in the housing market and a rebound in the stock market would really boost consumer confidence."

The tax has proven controversial among individual travellers since it was implemented in 2010. It also caused friction among government departments. At the time, the Ministry of Commerce issued discouraging correspondence to China's customs agency, local media reported.

The tax also poses a threat to the business model of the *daigou*, cross-border shoppers who purchase goods overseas and bring them back to the mainland, via personal luggage or postal services, to be sold at a profit.

However, the cut comes as analysts grow concerned that consumption and trade are the weak points in China's economy.

'There's a pickup in production but they need to get people out buying and consuming," said Banny Lam, head of research at China Everbright Bank International Investment, referring to the pick up in the nation's manufacturing sector in March.

The official purchasing managers' index for the month jumped to 50.5, compared to 49.2 in February. A reading above 50 indicates growth from the previous month.

Beijing had declared that it was embarking on the "biggest tax cut campaign in its history" to cushion the impact of slowing domestic demand and the trade war.

According to Premier Li's work report released last month, the overall tax reduction package, including the cut to the social contribution fees, will be worth 2 trillion yuan (HK$2.3 trillion) this year.