

1 Unification of two juxtaposed corporate income tax codes

The Legal System Office of State Council, State Administration of Taxation and Ministry of Finance proposed the reduction of the tax rate. The standard of deduction before taxing was unified and the policy of tax incentive according to different industries was enforced. Research has been undertaken on the difficult problems of the draft corporate income tax law and the tax incentive of relevant industries since March 2005. According to the principle of “reducing the tax rate properly, broadening the base of taxation and unifying the deal of two juxtaposed corporate income tax codes”, and considering the development and the change of the policy, the economic situation of the People's Republic of China (PRC) and the tropism of the national macro-economic policies for the corporate income tax law, is giving more attention to keep the steady increase of the revenue, thus enhancing the competition of corporation and holding the continuity of tax policy. After research on the emphases of two juxtaposed corporate income tax codes, — tax base, the tax rate and the policy of tax incentive—the draft of corporate income tax law was finalized. Part of the catalogs for the tax incentive of relevant industries are completed. Research and demonstration on the draft corporate income tax law is in progress.

2 Reform of the individual income tax

The Legal System Office of State Council, State Administration of Taxation and the Ministry of Finance drafted the protocol and explanation of the individual income tax law, and suggested the improvement of the standard of deduction of individual wages and salaries to the State Council in 2005. The National People's Congress and social public attached importance to this suggestion and convened a public hearing on 27 September 2005, which was the first legislation of the Standing Committee of the National People's Congress after The Legislation Law ordination. The Decision to amend the individual income tax law of the PRC had been adopted at the Eighteenth Session of the Standing Committee of the National People's Congress on 27 October 2005. This Law takes effect on 1 January 2006. It included the unified standard deduction of individual wages and salaries from RMB 800 to RMB 1600 each month, broadened the scope of self-compliance and established the system which the withholding agent fully declared. It enhanced the collection management on the high-income taxpayers by the tax authorities. The current classified individual income taxation system is being transformed to a system that combines comprehensive and classified individual income taxation.

3 Transformation from production-type to consumption-type value added tax

The VAT was transformed to improve the value added tax system; encourage investment; equipment update and advancement of technology; and mobilize fair competition between domestic and foreign products. The measure of transformation of VAT experimental unit was adjusted and improved according to the revenue in July 2005 in northeast PRC. The taxpayer's input tax of capital assets can be returned quarterly. Research on the transformation of VAT from production-type to consumption-type VAT in all areas of the PRC is also being undertaken.

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4 Fine-tuning of excise tax

The tax rate configuration and taxation range were adjusted to improve the effect of excise tax. It includes: addition of golf items, luxurious watches, yachts, one-off chopsticks by wood, floor boards by wood and so on, canceled toiletries and skin care products, adjusted some tax rate on wines (white), automobiles, motorcycles and tyres, etc. This took effect on April 1, 2006.

5 Streamline of agricultural taxes

On 31 December 2005 agricultural tax was totally cancelled in the PRC. In coordination with relevant departments the report on the unification of the taxation of city and village was drafted.

6 Reform of real estate tax

To address the various issues in real estate taxation, the Tax Policy Department of the Ministry of Finance formed the principium scheme in the way of task research, international and domestic proseminar and so on. Experimental simulation will be carried out in Beijing, Chongqing, Jiangsu, Ningxia, Liaoning, and Shenzhen, based on a tax experiment in Beijing in 2005. If the experiment succeeds, real estate tax reform will be launched.

7 New Vehicle and Vessel tax

The China State Council issued the new Provision Regulation on Vehicle and Vessel Tax (Order No. 482), effective 1 January 2007. The new regulation unified the old Vehicle and Vessel license tax for foreign enterprises and individuals and Vehicle and Vessel usage tax for domestic enterprises and individuals. It strengthens the tax collection system by designating insurance institutions which are engaged in the business of providing compulsory insurance for automobile accidents to act as withholding agents for Vehicle and Vessel Tax.

8 Adjustment of the export rebate

In recent years, PRC's trade surplus has been increasing tremendously and trade disputes have been escalating between PRC and its trading partners. In order to smoothen the trade surplus and ease the trade disputes, PRC has adjusted the export drawback rates of a part of commodities since 2004. The latest one was on July 1, 2007. In the adjustment, 2831 items of commodities are involved, accounting for 37% of the total commodities in Customer Tariffs. These commodities include not only products that are socially or environmentally harmful and products from low value-added industries, but also some strong export products (e.g. textile and shoes). The export rebate rate has been modified from the original 17%, 13%, 11%, 8% and 5% to 17%, 13%, 11%, 9% and 5%. The adjustment is also aimed to reduce the export of "high energy-consuming, high pollution and resource-based" and low value-added products thus to improve the industry structure.