

## Taxation on imported goods under lease agreement

Q: I have some questions on importation of commercial aircraft to China:-

1) Is the custom duty and import VAT on importation of aircraft to China, for lease to a Chinese airline by a Chinese company, 5% and 17%? I understand preferential rates are given only to Chinese airlines at 1% and 4% respectively?

2) If an aircraft is imported to China for repair and maintenance works (carried out by a Chinese Maintenance, Repair and Overhaul facility in China), is custom duty and import VAT applicable? If so, what is the rate? The aircraft may or may not be re-exported upon completion of repair.

A: 1. The collection of customs duty and VAT on importation of aircraft under a finance lease is different from that under an operating lease.

1.1. For aircraft imported under finance lease, the importer can pay the duty and VAT on the full amount of CIF price as stated in the purchase contract. The PRC customs won't exercise any statutory supervision after the importation. Alternatively, the importer can pay the duty and VAT on the amount of first rental installment under the lease agreement. The PRC customs continues to exercise post-importation supervision over the imported goods. The importer shall pay duty and VAT on the monthly installment until the whole amount under the lease agreement is paid off. Within 30 days of the expiry date of the lease, the importer shall complete the customs formality to lift the customs supervision and ship the goods out of China. Where the importer chooses to buy the leased goods, it shall pay duty and VAT that is computed with reference to the dutiable value of the goods with allowance for depreciations at that date. After payment of duty and VAT, the importer can apply to lift the customs supervision.

1.2. For aircraft imported under operating lease, the importer should pay duty and VAT on the monthly rental charges. The importer will not pay the duty and VAT on the full amount of the goods since it is bigger than the sum of rental charges. Again, the aircraft is under customs supervision. The importer only relieves its legal responsibility until the aircraft is shipped out of China upon the expiry of the lease terms. The non-preferential import duty and VAT rates for aeroplanes and aircrafts are as follows:

Aircrafts	Duty	VAT
With an unloading weight not exceeding 2 tons	5% (HS code 88022000)	17%
With an unloading weight exceeding 2 tons	4% (HS code 88023000)	17%

2. If an aircraft is imported to China for repair and maintenance works, the aircraft is not liable to import duty and VAT subject to the conditions being met: (1) the aircraft is moved out of China within 6 months; (2) the importer provides security deposit for duty and VAT. The security deposit is refunded to the importer after the aircraft leaves the Chinese territories. Where the aircraft is not exported out of China after being repaired, the importer has to pay duty and VAT. In addition, the importer must satisfy the requirement as laid down by the Civil Aviation Administration of China (the CAAC). For additional information, please contact us at [enquiry@china-tax.net](mailto:enquiry@china-tax.net) or [www.china-tax.net](http://www.china-tax.net).