

Notice of Ministry of Finance and State Administration of Taxation on Revising and Perfecting Consumption Tax Policies
(No.33 [2006] of the Ministry of Finance)

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The public finance offices or bureaus and the administrations of state taxes of all provinces, autonomous regions, municipalities directly under the Central Government, and cities with independent development plan, as well as the finance bureau of Xin Jiang Production and Construction Corp.,

With a view to meeting the requirement for social and economic development, and perfecting the consumption tax system, we have made adjustments to tax items and tax rates, and the related consumption tax policies upon the approval of the State Council, and the notice of the relevant contents are given below:

I. New Tax Items

1. Golf balls and golf equipment, luxury watches, yachts, disposable wooden chopsticks, and solid wood flooring shall be added to the list of taxable items. The applicable tax rates for them shall respectively be:

- (1) Golf balls and golf equipment shall be taxed at the rate of 10%;
- (2) Luxury watches shall be taxed at the rate of 20%;
- (3) Yachts shall be taxed at the rate of 10%;
- (4) Disposable wooden chopsticks shall be taxed at the rate of 5%; and
- (5) Solid wood flooring shall be taxed at the rate of 5%.

2. Gasoline and diesel shall be removed from the list of taxable items, and refined oil products shall be added to the list. Gasoline and diesel shall be put to the sub-item under the list of taxable item of refined oil products (and the tax rate shall remain unchanged). In addition, such five sub-items as naphtha, solvent oil, lubrication oil, fuel oil, and aviation kerosene shall be added.

(1) The applicable tax rates (unit tax rates) of the aforesaid new sub-items shall respectively be:

- ① Naphtha shall be taxed at 0.2 yuan per liter;
- ② Solvent oil shall be taxed at 0.2 yuan per liter;
- ③ Lubrication oil shall be taxed at 0.2 yuan per liter;
- ④ Fuel oil shall be taxed at 0.1 yuan per liter; and

⑤ Aviation kerosene shall be taxed at 0.1 yuan per liter.

(2) The conversion standards of the measurement units of the aforesaid new sub-items shall respectively be:

① Naphtha: 1 ton = 1385 liters;

② Solvent oil: 1 ton = 1282 liters;

③ Lubrication oil: 1 ton = 1126 liters;

④ Fuel oil: 1 ton = 1015 liters; and

⑤ Aviation kerosene: 1 ton = 1246 liters.

The adjustment to the conversion standard for the measurement units shall be determined by the Ministry of Finance and State Administration of Taxation.

II. Taxpayers

All entities and individuals engaged in the production, subcontracting for processing, or importation of the aforesaid new items of “taxable consumer goods” within the territory of the People’s Republic of China are payers of consumption tax, and shall file their returns and pay consumption taxes in accordance with the Tentative Regulation on Consumption Tax of the People’s Republic of China and the provisions of the present Notice.

III. Scrapped Tax Items.

Skin care and hair care products shall be removed from the list of taxable items, and the luxury skin care cosmetics that formerly fall within the scope of tax collection on skin care and hair care products shall be listed into the tax item of cosmetics.

IV. Adjustment of Tax Items and Tax Rates

1. Adjustment on the tax items and tax rates of compact cars.

The sub-items of small cars, cross-country vehicles, and minibuses under the taxable item of compact cars shall be removed from the list. And such sub-items as passenger cars, medium and light commercial buses shall be established under the list of taxable item of compact cars. The applicable rates shall respectively be:

(1) Passenger Cars.

① Those with a cylinder capacity (i.e. emission capacity, the same hereinafter) of 1.5 liters or less shall be taxed at the rate of 3%;

② Those with a cylinder capacity of more than 1.5 liters up to 2.0 liters shall be taxed at a rate of 5%;

③ Those with a cylinder capacity of more than 2.0 liters up to 2.5 liters shall be taxed at the rate of 9%;

④ Those with a cylinder capacity of more than 2.5 liters up to 3.0 liters shall be taxed at a rate of 12%;

⑤ Those with a cylinder capacity of more than 3.0 liters up to 4.0 liters shall be taxed at the rate of 15%; and

⑥ Those with a cylinder capacity of more than 4.0 liters shall be taxed at the rate of 20%.

(2) The medium and light commercial buses shall be taxed at the rate of 5%.

2. Adjustment on the tax rates of motorcycles.

The tax rates of motorcycles are determined on the basis of emission capacity:

(1) Those with a cylinder capacity of 250 ml or less shall be taxed at the rate of 3%; and

(2) Those with a cylinder capacity of more than 250 ml shall be taxed at the rate of 10%.

3. Adjustment on the tax rates of automobile tyres.

The tax rates of automobile tyres will be lowered to 3% from its current rate of 10%.

4. Adjustment on the tax rates of Chinese spirits.

The proportional tax rate of liquor made from grain and those made from potatoes shall be unified at 20%. The fixed tax rate shall be 0.5 yuan per jin (500g) or 0.5 yuan per 500ml. The measurement unit of specific per-unit tax rate shall be determined according to the weight of the commodities actually sold, if the measurement unit of the actually sold commodities is annotated according to the size, the conversion shall be made by 500 ml as one jin, and shall not be converted on the basis of alcohol concentration.

V. Taxable basis for sale on a complete set basis

In case taxpayers sell their self-produced taxable consumer goods or non taxable consumer goods they have purchased or produced on a complete set basis, the taxable basis shall be the sales volume of the sets of products (excluding value-added tax).

VI. Tax issues on self-produced naphtha for the use of enterprises in their continuous production.

In case a production enterprise uses its self-produced naphtha for its continuous production of gasoline and other taxable consumer goods, it is not required to pay consumption tax; if it uses it for continuous production of ethylene and other non taxable consumer goods or for other purposes, it shall pay consumption tax at the time when it transfers it for such uses.

VII. Deduction of the taxes already paid.

Consumption tax already paid on the raw materials for the following taxable consumer goods shall be allowed to be deducted from the consumption taxes payable:

1. Golf clubs made from after-tax club heads, shafts, and grips which are purchased or taken back from commissioned processing as raw materials.
2. Disposable wooden chopsticks made of after-tax disposal wooden chopsticks which are purchased or taken back from commissioned processing as raw materials.
3. Solid wood flooring made of after-tax solid wood flooring which is purchased or taken back from commissioned processing as raw materials.
4. Taxable consumer goods made of after-tax naphtha which is purchased or taken back from commissioned processing as raw materials. And
5. Lubrication oil made of after-tax lubrication oil which are purchased or taken back from commissioned processing as raw materials.

The measures for the administration of the deduction of paid consumption taxes shall be formulated additionally by State Administration of Taxation.

VIII. National average cost-profit ratio of the newly added and adjusted tax items

The national average cost-profit ratio of the newly added and adjusted tax items shall be determined as follows for the time being:

1. Golf balls and golf equipment, 10%;
2. Luxury watches, 20%;
3. Yachts, 10%;
4. Disposable wooden chopsticks, 5%;
5. Solid wood flooring, 5%.
6. Passenger cars, 8%; and
7. Medium and light commercial buses, 5%.

IX. Export

The policies of tax refund and exemption on export taxable consumer goods shall apply to the adjusted tax items and tax rates and the Regulation as well as other relevant provisions.

X. Tax Deduction and Exemption

1. Consumption tax on naphtha, solvent oil, lubrication oil, and fuel oil shall be collected for the time being at the rate of 30% of the taxable amount; and consumption tax on aviation kerosene shall not be collected for the time being.
2. Consumption tax on radial tyres shall be exempted.

XI. Other Relevant Issues

1. After the present Notice is implemented, if the taxable consumer goods that fall within the new tax items, removed tax items, and the adjusted tax items and tax rates are returned after they have been sold due to quality reasons, which shall be handled in accordance with the provisions of the detailed implementation rules of the Regulation. The detailed implementation shall be separately formulated by State Administration of Taxation.
2. For the taxable consumer goods in stock of the commercial enterprises before March 31, 2006 that fall within the scope of taxable goods as prescribed in the present Notice, it is not required to file tax returns or make up taxes.
3. For the consumption tax owed by any entity or individual, the competent tax authority shall demand the payment in accordance with the Law of the People's Republic of China on the Administration of Tax and its detailed implementation rules in a timely manner.
4. The refundable tax on export taxable consumer goods purchased by export enterprises shall be computed with reference to the amount of taxes indicated in the Payment of Consumption Taxes certificate (used specifically for the export of goods).
5. In case any export enterprise has purchased export-oriented taxable consumer goods before March 31, 2006, and obtained a Payment of Consumption Taxes certificate (used specifically for the export of goods), and exports them after April 1, 2006, the tax refund shall still be handled in light of the exiting tax items and tax rates. The exact time for implementation shall be the day when the Payment of Consumption Taxes certificate (used specifically for the export of goods) is issued.

XII. Time of Implementation

The present Notice shall be implemented as of April 1, 2006. The following documents or provisions shall be repealed simultaneously:

1. Articles 4 and 11 of the Notice on Printing and Distributing the Annotations on the Scope of Consumption Tax Collection (No.153 [1993] of the State Administration of Taxation).
2. Supplementary Notice of the Annotations on the Scope of Consumption Tax Collection (No.026 [1994] of the State Administration of Taxation).
3. Letter of Reply on Relevant Issues concerning the Collection of Consumption Tax on CH1010 Minivans (Letter No.303 [1994] of the State Administration of Taxation).
4. Article 4 of the Notice of State Administration of Taxation on Several Issues concerning the Collection of Consumption Tax (No.84 [1997] of the State Administration of Taxation).
5. Articles 1 and 2 of the Letter of Reply of the State Administration of Taxation on the Issue concerning the Collection of Consumption Tax on Some Oil Products (Letter No.1078 [2004] of the State Administration of Taxation).
6. Letter of Reply of the State Administration of Taxation on the Issue concerning the Collection of Consumption Tax on Traveling Buses Reassembled from Pick-ups (Letter No.217 [2005] of the State Administration of Taxation). And
7. Letter of Reply of the State Administration of Taxation on the Issue concerning the Collection of Consumption Tax on Maybelline Pure Stay and Other Products (Letter No.1231 [2005] of the State Administration of Taxation).

Annex: Annotations on the Scope of Consumption Tax Collection on the Newly Added and Adjusted Tax Items

March 20, 2006

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I. Golf Balls and Golf Equipment

Golf balls and golf equipment shall refer to the various special equipment needed for undertaking golf sports, including golf balls, golf clubs, and golf bags, and etc.

Golf balls shall refer to the balls with a weight of no more than 45.93g, and a diameter of no more than 42.67 mm for the use of golf sports games and practices. Golf clubs shall refer to the tools designed for playing golf, consisting of three parts: club heads, shafts, and grips. Golf bags shall refer to the bags used specifically for carrying golf balls and golf clubs.

The scope of this tax item shall include golf balls, golf clubs, and golf bags. Club head, shaft, and grip of a golf club shall fall within the scope under this tax item.

II. Luxury Watches

Luxury watches shall refer to the various watches sold at the price (excluding value-added tax) of 10000 yuan or more per watch.

The scope of this tax item shall include the various watches complying with the aforesaid standards.

III. Yachts

Yachts shall refer to the floating carriers on water with a length of more than 8 meters and less than 90 meters, whose hulls are made of glass steel, steel, aluminum alloys, plastics, and other various materials, and which may move on water. According to the propelling power, yachts may be divided into non-motor yachts, sailing yachts, and motor yachts.

The levying scope of this tax item shall include the various motor yachts with a length of hulls of 8 meters up to 90 meters, in which an engine is installed, and which may move on water, and are purchased by individuals or public organizations, and mainly for the use of water sports, and entertainment, and other non-profit making activities.

IV. Disposable Wooden Chopsticks

Disposable wooden chopsticks, also called hygiene chopsticks, shall refer to the various disposable chopsticks that use wood as raw materials, and are processed through such steps as sawing and cutting, soaking, rotary cutting, shaving, baking, screening, polishing, chamfering, and packaging, and etc.

The scope this of tax item shall include the disposable wooden chopsticks of various specifications. The unpolished and chamfered disposable wooden chopsticks shall fall within the scope of this tax item.

V. Solid wood flooring

Solid wood flooring shall refer to the ground decoration materials of the shape of pieces or strips which are processed with wood as raw materials through sawing and cutting, baking, polishing, cutting off, tenoning, painting, and other working procedures. Solid wood flooring may be divided into three categories: single wood strip (piece) solid wood flooring, finger jointed solid wood flooring, and compound solid wood flooring, according to different production techniques, and may be divided into two categories: unlacquered wood flooring (white body plank, natural color flooring) and lacquered wood flooring, on the basis of different appearance disposal.

The scope of this tax item shall include solid wood flooring, finger jointed solid wood flooring, and compound solid wood flooring of various kinds and the solid wood decoration plank with the side notch of tenon or trough and used for decorating walls

and ceilings. The unlacquered natural color flooring shall fall within the levying scope of this tax item.

VI. Refined Oils

This tax item includes seven sub-items: gasoline, diesel, naphtha, solvent oil, aviation kerosene, lubrication oil, and fuel oil.

The scope of tax on gasoline and diesel shall remain the same as before the adjustment.

1. Naphtha

Naphtha, also called light gasoline or chemical light oil, which is the clean oil processed and produced from petroleum or obtained from secondary processing cracked gasoline after refining, and used for chemical raw materials.

The scope of naphtha shall include the various clean oils, excluding gasoline, diesel, kerosene, and solvent oil.

2. Solvent oil

Solvent oil shall refer to the clean oils processed and produced from petroleum for the production of painter and lacquer, processing of edible oil, and production of printing ink, leather, pesticide, rubber, and cosmetics.

The scope of tax on solvent oil shall include the various solvent oils.

3. Aviation kerosene

Aviation kerosene, also called jet fuel, is the petroleum fuel processed and produced from petroleum and used as energy for jet engines and jet propulsion system.

The scope of tax on aviation kerosene shall include the various kinds of aviation kerosene.

4. Lubrication oil

Lubrication oil shall refer to the lubrication oil products used for internal combustions and machining process. Lubrication oil includes mineral lubrication oil, plant lubrication oil, animal lubrication oil, and compound lubrication oil of chemical materials.

The levying scope of lubrication oil shall include mineral lubrication oil processed by using petroleum as raw materials and basic oil of mineral lubrication oil. Plant lubrication oil, animal lubrication oil, and compound lubrication oil of chemical materials shall not fall within the levying scope of lubrication oil.

5. Fuel oil

Fuel oil is also called heavy oil or residual oil.

The levying scope of fuel oil shall include the various fuel oils used as fuels for generating power by power plants, fuels for vessel boilers, fuels for heating boilers, metallurgy and other industrial boilers.

VII. Compact Cars

Cars shall refer to the non-tracking vehicles driven by power and have four or more wheels.

The levying scope of this tax items shall include the various passenger cars with no more than 9 seats at the maximum (including the driver's seat) and for the use of carrying passengers and goods in their design and technical characteristics, and the various medium and light commercial buses with 10 to 23 seats (including the driver's seat) and for the use of carrying passengers and goods in their design and technical characteristics.

The vehicles reassembled and remanufactured with the chassis (frame) of passenger cars whose emission capacity is 1.5 liters or less shall fall within the levying scope of passenger cars. The vehicles reassembled and remanufactured with the chassis (frame) of passenger cars whose emission capacity is more than 1.5 liters or medium and light commercial buses shall fall within the levying scope of medium and light commercial buses.

For compact cars that include the number of driver (passenger seating capacity) in ranges (for example, 8 to 10 persons; 17-26 persons), the levying scope shall be determined according to the lower limit of the number of people within the specified range.

Electrically driven vehicles do not fall within the levying scope of this tax item.

VIII. Cosmetics

The levying scope of this tax item shall include the various cosmetic products falling under the category of beauty treatment and makeup, luxury skin care cosmetics and complete sets of cosmetic products.

Cosmetic products of the category of beauty treatment and makeup shall refer to perfumes, perfume powders, powders, lipsticks, nail polish, rouge, eyebrow pencils, lip pencils, blue eye oil, eyelashes and sets of cosmetics. Make-up oil, take-off ornament oil, grease paint used by actors and actresses in the stages, operas, films and televisions do not fall within the levying scope of this tax item.

The levying scope for luxury skin care cosmetics shall be formulated separately.