

## China announces masterplan for Hainan Free Trade Port

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The State Council and the Central Committee of the Communist Party of China jointly announced, on 1 June 2020, the *Overall Plan for the Construction of the Hainan Free Trade Port* (the masterplan). The masterplan grants greater reform autonomy to Hainan and aims to build it into a globally-influential free trade port (FTP) by the middle of twenty-first century. A more relaxed list of industry sectors for foreign direct investment will be launched for the Hainan FTP, with associated beneficial tax policies.<sup>1</sup>

Hainan is an island province of China and the nation's southernmost point with a land area of 35,400 square kilometers and a population of 9 million. The municipality is divided into four prefecture-level cities, five county-level cities and other administrative divisions.<sup>2</sup> The 2018 average annual salary in Hainan was RMB75,885 (US\$10,700).<sup>3</sup>

### Corporate income tax (CIT) preferential policies

- ▶ Enterprises registered in the Hainan FTP and engaged in substantive business activities in encouraged industry sectors will be taxed at a reduced CIT rate of 15% commencing on 1 June 2020. This policy will be expanded to all industry sectors from 2035.
- ▶ For enterprises registered in the Hainan FTP and engaged in tourism, modern services or high-tech industries, any income derived from overseas new direct investments made before 2025 will be exempt from CIT.

- ▶ All companies with qualifying capital expenditure may claim a 100% upfront deduction or apply for accelerated depreciation or amortization.

### Individual income tax (IIT) preferential policies

- ▶ By 2025, for high-end or urgently needed individuals who are employed by enterprises in the Hainan FTP, the IIT burden exceeding the 15% tax rate will be exempt.
- ▶ By 2035, individuals who have aggregately stayed in the Hainan FTP for 183 days during a tax year may receive reduced progressive IIT rates of 3%, 10% and 15% for active income derived from the Hainan FTP.

### Zero customs duty and simplified indirect tax system

Upon the full launch of the Hainan FTP program (anticipated by 2025), imported goods may be exempt from customs duty or Customs daily supervision (subject to conditions).

Goods “imported” from the Hainan FTP into China should generally be subject to customs duty and import level taxes. However, such customs duty may be exempted if the imported goods are manufactured by an enterprise in the Hainan FTP in the encouraged industry sectors, and the manufacturing activity contributed to a minimum 30% increase in the value of the goods.

Additionally, certain indirect taxes (including value-added tax, consumption tax, vehicle purchase tax, city construction tax and education surcharge) will be combined into a single indirect tax. Until this is implemented, a sales tax will be introduced and will apply to the retail of goods and services.

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## Endnotes

1. Implementation details have not yet been released.
2. Data from official website of The People’s Government of Hainan Province [https://www.hainan.gov.cn/hn/zjhn/hngl/xzqh/201106/t20110627\\_442380.html](https://www.hainan.gov.cn/hn/zjhn/hngl/xzqh/201106/t20110627_442380.html).
3. Data from website of Hainan Provincial Bureau of Statistics [http://stats.hainan.gov.cn/tjj/tjfx/ztfx/201906/t20190610\\_2590852.html#:~:text=%E8%BF%91%E6%97%A5%E6%B5%B7%E5%8D%97%E7%9C%81%E7%BB%9F%E8%AE%A1,%E5%88%86%E5%B2%97%E4%BD%8D%E5%B9%B3%E5%9D%87%E5%B7%A5%E8%B5%84%E6%8-3%85%E5%86%B5%E3%80%82](http://stats.hainan.gov.cn/tjj/tjfx/ztfx/201906/t20190610_2590852.html#:~:text=%E8%BF%91%E6%97%A5%E6%B5%B7%E5%8D%97%E7%9C%81%E7%BB%9F%E8%AE%A1,%E5%88%86%E5%B2%97%E4%BD%8D%E5%B9%B3%E5%9D%87%E5%B7%A5%E8%B5%84%E6%8-3%85%E5%86%B5%E3%80%82).

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