

Hainan Free Trade Port

The Central Committee of the Communist Party of China and the State Council on June 1st released a master plan for the Hainan island free trade port ("FTP"), which aims to build the whole Hainan province into a globally-influential high-level free trade port by the middle of the century.

A FTP system focusing on trade and investment liberalization and facilitation will be "basically established" in Hainan by 2025 and become "more mature" by 2035.

Precisely Hainan shall:

- open up to capital projects in a phased manner to facilitate foreign capital flows in the Hainan FTP;
- further facilitate cross-border trade in goods and services with new type of international trade settlements and lighten the current inbound and outbound payments procedure as required by SAFE;
- vigorously develop tourism, modernize the service industries and the new and high technology industries.

Tax beneficial policies shall be adopted, including:

1. Zero-Tariff

- a. A good list shall be published and when entering in Hainan FTP, not listed goods - in principle - shall be exempted from import duties (tariff, import VAT, consumption tax);
- b. Zero-tariff shall apply on production equipment imported by enterprises for their own use;
- c. Zero-tariff shall apply on raw materials and auxiliary materials imported into Hainan for production and processing purposes (or in service trade) in order to be exported overseas;
- d. People in Hainan can enjoy duty-free when they purchase import commodities within Hainan;
- e. Extend the quota for duty-free shopping to CNY 100,000 per person/per year and expand the categories of duty-free goods.

The contents of the lists above mentioned shall be dynamically adjusted by relevant departments according to the actual needs and regulatory conditions of Hainan.

2. Lower Tax Rate, effective from the date of publication

- a. Enterprises registered in Hainan and engaged in encouraged sectors – not specified yet - shall enjoy a lower corporate income tax rate of 15%;
- b. Foreign invested enterprises operating in tourism, modern services and/or high-tech technology, shall be exempted from corporate income tax until 2025;
- c. The individual income tax rate for high-end talents or talents in short supply working in the port, shall have a rate of 15% maximum;

Detailed management measures for the above-mentioned preferential policies shall be formulated by the Hainan's main authorities of commerce and taxation.

By developing Hainan FTP, China aims to emulate the success of Hong Kong and Singapore, both of which are renowned world trading and financial centers. However, while it is important to learn experiences from these two cities, Hainan will also have its own unique designs that suit its own conditions rather than imitating every policy from these two cities.