

## **Interpretation of the Exemption from Import Duties, Import Value-added Tax and Consumption Tax on Imported Production Equipment for Enterprises' Own Use**

### **(I) Background of the Policy**

In June 2020, the Communist Party of China Central Committee and the State Council issued the "Overall Plan for the Construction of Hainan Free Trade Port," which stated the implementation of a zero-tariff policy for some imported goods by 2025.

### **(II) Significance**

The eligible enterprises in industries such as manufacturing, research and development, culture, and tourism, helping to reduce production costs and attract people, goods, and capital to gather in Hainan. This solidifies the foundation of Hainan's real economy, promotes the construction of the free trade port, and enables enterprises to truly enjoy the benefits of the free trade port.

### **(III) Main Contents**

In February 2021, the Ministry of Finance, the General Administration of Customs, and the State Taxation Administration issued the "Notice on the Zero Tariff Policy for Production Equipment for Own Use in Hainan Free Trade Port" (Cai Guan shui [2021] No. 7), which specifies that before the island's Customs was completely closed, enterprises registered in Hainan Free Trade Port with independent legal person status can import production equipment for own use without paying import duties, value-added tax, and consumption tax, except for items explicitly not eligible for exemption as per laws and regulations. In February 2022, the Ministry of Finance, the General Administration of Customs, and the State Taxation Administration issued the "Notice on Adjusting the Zero Tariff Policy for Production Equipment for Own Use in Hainan Free Trade Port" (Cai Guan shui [2022] No. 4), adding eight items of production equipment required for cultural and tourism industries such as roller coasters, and expanding the policy's application to include government-affiliated institutions.

### **(IV) Scope of Application**

For enterprises and government-affiliated institutions registered in Hainan Free Trade Port and having independent legal personality to produce for own use.

### **(V) FAQs**

1. Which production equipment for own use are eligible?

Answer: ①Production equipment for own use, excluding items explicitly not eligible for exemption as per laws, regulations, and the Negative List of "Zero-tariff" Production Equipment for Own Use at Hainan Free Trade Port, are exempt from import duties, value-added tax, and consumption tax. ②The term "production equipment" in this policy refers to equipment required for production and operation activities such as infrastructure construction, manufacturing, research and development, testing and maintenance, logistics and warehousing, medical services, and culture and tourism, excluding household appliances and their parts, components, and accessories as specified in Chapters 84, 85, and 90 of the Customs Import and Export Tariff of the People's Republic of China.

2. What are the regulations applicable to and requirements for the transferring of "zero-tariff" production equipment?

Answer: "Zero-tariff" production equipment is limited to own-use within Hainan Free Trade Port by enterprises that meet the policy requirements and are under customs supervision. In cases of bankruptcy or genuine need for transfer, approval from the customs and relevant procedures are required before the transfer. If the equipment is transferred to entities not meeting the policy requirements, the relevant import taxes must be paid as required. The transfer of "zero-tariff" production equipment is subject to domestic value-added tax and consumption tax as per regulations.