



**The Hong Kong  
Shippers'  
Council**  
香港付貨人委員會



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# Clearing up tax confusion is absolute priority

Shippers and freight forwarders are puzzled by new taxation implemented by the mainland government.

The Treasury-Taxation (2013) Decree 37, announced on May 24, 2013, stated that Value Added Tax (VAT) instead of Sales Tax would be applied for the transport and related service sectors from August 1, 2013.

The new tax regime is part of large-scale national tax reforms that aim to rationalise the taxation system for the service industry by reducing or eliminating double or multiple taxation for the same service provided by different service providers along the service chain.

The tax reforms also aim to regulate the taxation environment by chaining up all parties along the service chain so that no one can avoid paying tax.

The new tax regime for the transport and related service sector went through a pilot scheme in Shanghai

from January 1, 2012 and the scheme was extended to eight provinces and three dedicated cities from August 2012.

Nevertheless when the scheme was implemented on a full national scale, on August 1, there remained immense uncertainty and confusion.

As far as shippers are concerned, we are troubled by the following problems:

- The tax rate announced by the authorities is 6 per cent. However, without exception, shipping lines immediately announced they would collect an extra 6.78 per cent to 6.83 per cent on top of their normal charges. The extra 0.78 per cent to 0.83 per cent, varies from place to place, is said to cover certain service taxes. Not only shipping lines have taken advantage of the tax reform to pass on the tax expenses they

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should normally bear; the sheer presence of a collective and common action is clear proof of violation of competition law. In an open and competitive market, it is impossible for all lines to take the same unjustifiable pricing action in the same manner and at the same time. This sort of obvious anti-competitive behaviour should not be allowed at any time.

- In their announcements, some shipping lines stated that they were collecting the tax on behalf of the mainland authorities. This message is totally false. Decree 37 states clearly that the tax is for companies and people providing transport and related services in mainland China. In addition, the authorities need not use shipping lines as agents to collect tax on their behalf. The authorities should take this sort of false message seriously.
- Shipping lines were paying 5

per cent Sales Tax before the tax reform. Now, not only they have stopped paying the Sales Tax, they have passed on all 6 per cent VAT plus other taxes and charges that they have been normally paying to shippers. Shippers find this practice totally unacceptable.

- According to Decree 37, the applicable tax rate for freight on the international sector is zero. Only freight and services for the domestic portion are subject to VAT. Shipping lines are charging shippers 6.78 per cent to 6.83 per cent even on ocean freight, just in case freight is paid in the mainland. There would be no such charge if freight and other charges are paid overseas. This charging practice clearly discriminates against mainland shippers. It will have the effect of turning all CIF trading terms to FOB terms in case of export, and erode further mainland shippers' power of carrier selection.

- Many shipping lines and freight forwarders are selling to their customers the idea that if charges are settled overseas (including Hong Kong), they would not charge the extra 6.78 per cent to 6.83 per cent. We would advise shippers that they have to check clearly that this practice is proper or allowed. Tax avoidance is a serious offence and the authorities would always have the opportunity to trace the records in the future, if necessary. Furthermore, some shipping lines and freight forwarders have extra service charges for this arrangement and there would be exchange losses as payment would be in overseas currencies.

- If shipping lines and freight forwarders issue official VAT receipts for their charges, then shippers may still use the receipts to offset some of shippers' own VAT payments and hence they may not be financially worse off. Nevertheless, we found some shipping lines and freight forwarders simply added this 6.78 per cent to 6.83 per cent to their own invoices without the official VAT receipt. Shippers should reject this bill totally; otherwise the tax burden will be completely and unfairly borne by shippers.

We urge the mainland authorities to come up with clarification of the regulations. At the moment, there are false and distorted messages in the market, as well as improper practices. We understand that a lot of petitions have been made to the authorities and that hearing sessions will be held. The Council has made our submissions, together with those of the China Consignors' Association. We look forward to a prompt and positive outcome.