

China's Practice in Vessel Tonnage Tax Collection: Legislation and Policy Evaluation

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On December 27, 2017, the 31st session of the Standing Committee of the 12th National People's Congress passed the Vessel Tonnage Tax Law of the People's Republic of China. China's Vessel Tonnage Tax Law has basically maintained the stability of the vessel tonnage tax collection system and accorded with the basic national conditions of China's shipping industry. The system established by China's Vessel Tonnage Tax Law is basically a traditional vessel tonnage tax system, which is different from those implemented by many other countries. This paper explores the reason why China chooses to implement the vessel tonnage tax system and evaluates the policy within a certain scope and from a certain angle. It also examines the shortcomings of China's vessel tonnage tax system as well as the burden brought by it to the shipping enterprises and puts forward countermeasures and suggestions for reforming and perfecting the vessel tonnage tax system in China.

Keywords: Vessel Tonnage Tax System, Statutory Taxation, Policy Evaluation, Countermeasures and Suggestions

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1. Introduction

On December 27, 2017, the 31st session of the Standing Committee of the 12th National People's Congress ("NPC") unanimously voted to approve the Vessel Tonnage Tax Law of the People's Republic of China (hereinafter Vessel Tonnage Tax Law), which came into force on July 1, 2018.¹ At the same time, the Interim Regulations of the People's Republic of China on Vessel Tonnage Tax (hereinafter Interim Regulations on Vessel Tonnage Tax) issued by the State Council on December 5, 2011 was abolished. The passage and implementation of the Vessel Tonnage Tax Law symbolizes that China has established the vessel tonnage tax collection system in the form of law, which has strengthened the predictability, stability, and authority of the vessel tonnage tax collection. As an important legislative measure it allows China to gradually implement the principle of statutory taxation.

According to Articles 1 and 2 of the Vessel Tonnage Tax Law, vessels from overseas ports should pay a tonnage tax when entering domestic ports according to the provisions of the Table of Taxable Items and Rates of Tonnage Tax. The tonnage tax shall be collected by the customs authorities. Simultaneously, the law stipulates the cases in which vessels are exempt from paying the vessel tonnage tax.² Although the vessel tonnage tax system has upgraded to law, its content has not changed significantly. However, institutional priorities have been made in terms of the reform of "power delegation, fair regulation and efficient service"³ and the reduction of institutional transaction costs. Meanwhile, the Vessel Tonnage Tax Law requires the coordination and cooperation between the Chinese customs and other departments to ensure the successful completion by law enforcement. Moreover, as the vessel tonnage tax collection system in China is not exactly the same as that of other big shipping countries, many people have criticized the system to a certain extent.⁴

The primary purpose of this research is to discuss whether the Vessel Tonnage Tax Law is reasonable. Taking the implementation of China's Vessel Tonnage Tax Law as a historical opportunity, this paper will first introduce the development and practice of Chinese vessel tonnage tax legislation. Then, it will explain the reasons for China's system mode selection of vessel tonnage tax law. This paper will further discuss the impact of China's vessel tonnage tax legislation on the

shipping industry. Finally, it will dissect the Vessel Tonnage Tax Law to analyze its possible shortcomings and propose some countermeasures for its improvement.

2. Development of China's Vessel Tonnage Tax Legislation and Its Reform

Vessel tonnage tax is a tax collected by a government on vessels entering and leaving its territory. In China, it is a very small portion of tax. For a long time, regulating vessel tonnage system was not noticeable. Shortly after the People's Republic of China ("PRC") was founded in 1949, the State General Administration of Customs issued the Provisional Measures of the PRC on Customs Vessel Tonnage Tax (hereinafter Provisional Measures on Vessel Tonnage Tax) on September 29, 1952. It was implemented for adjusting the tariff treatment of vessels until November 2011 when the State Council passed the Interim Regulations on Vessel Tonnage Tax. In 2015, as the government's work report, budget report and plan report of the 3rd session of the 12th NPC put forward the difficulties of tax system reform, the vessel tonnage tax legislation was included into the reform plan.⁵ In October 2016, the draft of the Vessel Tonnage Tax Law was open to the whole society for public comments. The 2017 Legislative Work Plan of the State Council listed it as an urgent project to deepen the comprehensive reform. In May 2017, the draft of Vessel Tonnage Tax Law was submitted to the State Council for review.⁶

A. Evolution of Binary Vessel Tonnage Tax System

China's law and practice of vessel tonnage tax system had a long history. From 1949 to 1951, the Ministry of Finance was responsible for collecting the tonnage tax on vessels according to the functional division among different government organizations. The tonnage tax belonged to the scope of the vehicle and vessel usage license plate tax. At that time, China adopted a binary system to collect taxes. The tax authorities collected the vehicle and vessel usage license plate tax for Chinese vessels, while the customs department levied the vessel tonnage tax for foreign vessels and foreign leased vessels. On June 16, 1952, with the approval of the then State Council, China's State General Administration of Customs issued

the Provisional Measures on Vessel Tonnage Tax on September 29, 1952, which became the legal basis for the long-term collection and management of vessel tonnage tax in China.⁷ For implementing these measures, vessel tonnage tax and its tax rate were modified and improved, which led to change the tax system later.⁸ From October 1986 to December 2000, the Ministry of Transport collected the vessel tonnage tax, but the Customs Department levied a tax on vessels in practice. The vessel tonnage revenue then was mainly used for the maintenance, construction, and management of navigation aids at sea. On January 1, 2001, the vessel tonnage tax moved to the central treasury as the central budget revenue, but it was still specially used for the construction, maintenance, and management of marine navigation facilities.⁹

B. Significant Changes in the Tax Scope, Taxable Items, and Rates of Vessel Tonnage Tax

In November 2011, the State Council of China passed the Interim Regulations of Vessel Tonnage Tax.¹⁰ As the Interim Regulations on Vessel Tonnage Tax came into force on January 1, 2012, the Provisional Measures on Vessel Tonnage Tax, which had been implemented for nearly 60 years, was abolished. The Interim Regulations on Vessel Tonnage Tax was the result of China's reform of the vessel tonnage tax system for enforcing the tonnage tax system under the rule of law. According to the statistics of relevant departments, since the implementation of the Interim Regulations on Vessel Tonnage Tax, the operation of the tonnage tax collection system in China has been relatively stable. From 2012 to 2016, a total of RMB 22.46 billion of tonnage tax was collected, with an annual average of nearly RMB 4.5 billion (Table 1). Since 2012, significant changes in the tax scope, taxable items, and rates of vessel tonnage tax have been made in implementing the Interim Regulations on Vessel Tonnage Tax.

1. Expansion of the tax scope

As one of the core elements of the vessel tonnage tax system, the object of the tonnage tax has significantly changed. In the 1950s, the tonnage tax in China covered various foreign vessels and some Chinese vessels sailing in Chinese ports.¹¹ It is not necessary for the aforementioned vessels to pay an additional vehicle and vessel license and plate tax to the tax authorities.¹² Since 2011,

however, various kinds of vessels that enter the domestic ports from overseas ports, including foreign vessels and Chinese vessels have become the objects of tonnage taxation in China.¹³

Table 1: Vessel Tonnage Tax Revenue in China (2001-15)¹⁴

Year	Vessel tonnage tax revenue (100 million yuan)	Annual growth rate of tonnage tax revenue (%)	National tax revenue (100 million yuan)	The proportion of tonnage tax revenue to the national tax revenue
2001	6.19	?	15301.38	0.04
2002	8.45	36.51	17636.45	0.05
2003	9.38	11.01	20017.31	0.05
2004	11.54	23.03	24165.68	0.05
2005	13.81	19.67	28778.54	0.05
2006	15.74	13.98	34804.35	0.05
2007	18.20	15.63	45621.97	0.04
2008	20.11	10.49	54223.79	0.04
2009	23.79	18.30	59521.59	0.04
2010	26.63	11.94	73282.00	0.04
2011	29.74	11.68	89720.31	0.03

2. Adjustment of taxable items and tax rate

Since 2012, the rate of vessel tonnage tax in China has changed as well. China has simplified taxable items and adjusted tax rates. The levy scope of the original tonnage tax is divided into two categories: motorized vessels and non-motorized vessels. Nine taxable items are designed according to the net tonnage of vessels; each taxable item corresponds to the ordinary tax rate and a preferential tax rate according to the two kinds of license periods-ninety days and thirty days.¹⁵ For motorboats, steamboats, and tugboats, taxable items are designed on the basis of 500 tons and below, 501-1,500 tons, 1,501-3,000 tons, 3,001-10,000 tons, and above 10,001 tons, respectively.¹⁶ For non-motorized vessels, including all kinds of human driving vessels and barges and sailboats, three taxable items are designed on the basis of 30 tons and below, 30 to 150 tons, and above 151 tons.¹⁷ The new Vessel Tonnage Tax Law only applies to motorized and non-motorized vessels.

Other non-motorized vessels are exempt from tonnage tax. The number of taxable items is also reduced to four items, which are designed based on no more than 2,000 net tons, more than 2,000 but less than 10,000 net tons, more than 10,000 but less than 50,000 net tons, and more than 50,000 net tons.¹⁸ Each taxable item corresponds to the ordinary and preferential tax rate of the three kinds of license periods: one year, ninety days, and thirty days.¹⁹ At the same time, according to regulations, tonnage tax on the motorized tugboats and non-motorized barges are collected based on the standard of fifty percent of the tax rate of the motorized vessels with the same net tonnage. The current design of tonnage taxable items is more simplified and reasonable.²⁰

3. Small adjustment of the scope of tax deduction and exemption

Compared with the original tonnage tax measures, the new vessel tonnage tax regulations have a more specific and detailed stipulation for the scope of tax deduction and exemption, which is expanded appropriately.²¹ In the past, vessels requisitioned or chartered by the central or local people's governments were exempt from tonnage tax. Today, however, only the vessels exclusively used or requisitioned by the armies and armed police forces are exempt from tonnage taxes. In this sense, the scope of tax exemption for some vessels has been narrowed down.

C. Promotion of Vessel Tonnage Tax's Legislative Level

For a long time, the most important legal basis for vessel tonnage tax was the Provisional Measures on Vessel Tonnage Tax issued by the State's General Administration of Customs of 1952. According to the basic theory of legislative science, the Provisional Measures on Vessel Tonnage Tax is the departmental rules and regulations from the aspect of the issuing body, which belongs to the administrative regulations.²² The Interim Regulations on Vessel Tonnage Tax was approved by the Executive Meetings of the State Council in 2011, promulgated and implemented in the form of the 610th order of the State Council.²³ Upgrading the legislative level of vessel tonnage tax has improved the authority of tonnage tax legislation and is conducive to the collection and management of tonnage tax. Besides, the Vessel Tonnage Tax Law has further enhanced its legal hierarchy, which effectively promotes the construction progress of vessel tonnage tax by

rule of law.

3. Why does China Choose the Traditional Mode of Vessel Tonnage Tax Law of 2018?

A. Strengthen and Implement the Principle of Statutory Taxation

Chinese legislators are strengthening and implementing the principle of statutory taxation. This is why China's legislature upgraded its vessel tonnage tax legislation from the level of regulation to law. The principle of statutory taxation originated from the British practice. In 1215, the Great Charter of the United Kingdom stated: "No scutage or aid may be levied in our kingdom without its general consent."²⁴ The king did not inherently have the power to have tax wealth. His right to tax was derived from the power endowed by the people. With the development of tax theory and practice, the principle of statutory taxation had evolved into a separation of powers of state administrative organs and parliaments.²⁵

After World War II, the principle of statutory taxation became more important for taxation in most countries.²⁶ The US Constitution stated: "All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as other bills."²⁷ The key elements of the principle of statutory taxation are statutory tax categories, clear tax elements, and legal tax procedures, and the core is the statutory power of taxation.²⁸ Article 56 of the PRC Constitution states: "It is the duty of citizens of the People's Republic of China to pay taxes in accordance with the law." Article 8 of the Legislation Law of the People's Republic of China stipulated: "Only national law may be enacted in respect of matters relating to the establishment of tax categories, the determination of tax rates and the management of tax collection." The work report of the 19th National People's Congress of the Communist Party of China (2017) also clarified the importance of "deepening the reform of the tax system."²⁹ Therefore, China's upgrading of vessel tonnage tax legislation from measures to regulations, and then to the law, not only represents changes made to the legal title, but also an important steppingstone to implement the principle of statutory taxation.

B. Stability of China's Tax System

Today, there are two tonnage tax systems in the world: traditional and modern. The modern tonnage tax system, instead of taking the shipping income of shipping enterprises as the basis for taxation, takes the net tonnage of vessels as the basis for taxation. The vessel tonnage tax system, instead of enterprise income tax, has been adopted there, called “tonnage income tax.” However, the traditional vessel tonnage tax system is not linked to the business income of the enterprises. It only levies a tax on the vessels’ behavior of entering and leaving the country.³⁰

China implements the traditional vessel tonnage tax system, which is different from the modern tonnage tax system adopted by most major shipping countries in the world.³¹ China’s vessel tonnage tax is basically property tax. Shipping enterprises need to pay additional enterprise income tax after paying the vessel tonnage tax. Vehicle and vessel tax is levied on vessels at the same time, while different collection systems are applied to the vessels hanging the PRC’s national flag. This leads to the coexistence of both vehicle and vessel tax, and vessel tonnage tax in China, each of tax burden is different.³²

Some scholars believe that relying solely on the modern vessel tonnage tax system cannot fundamentally solve this problem.³³ This is because, according to the study of relevant organizations,³⁴ the proportion of vessel tonnage tax to the income tax of the shipping enterprises is not large. Also, the co-existence of vehicle and vessel tax and vessel tonnage tax is a reason for the loss of Chinese funded foreign vessels, because the popularity of vessels hanging a flag of convenience is closely related to a country’s maritime tax system, ship registration system, etc. Therefore, the modern vessel tonnage tax system cannot be an entire solution for improving the status quo.³⁵ As the tax system of a country is interrelated, it is not a good option to adopt the modern vessel tonnage tax system without relevant legislative environment.

C. National Conditions of Shipping in China

According to the statistics of the World Sea Protest of the UN Trade Development Council in 2016, nearly sixty percent of the world’s shipping countries belong to developed countries.³⁶ The top-ten shipping countries implemented the modern vessel tonnage tax system (Table 2).³⁷ When the draft of the Vessel Tonnage Tax Law was open to the whole society for public comments, the shipping enterprises

in China urged the implementation of the modern tonnage tax system.³⁸ Generally speaking, Chinese shipping enterprises have to bear a heavy tax burden, usually including enterprise income tax, vehicle and vessel tax, vessel tonnage tax, etc.³⁹ When the Vessel Tonnage Tax Law was soliciting public opinions, Chinese shipping enterprises asked for reforming the current maritime tax system in order to enhance their competitiveness in the world. However, the traditional vessel tonnage tax system was still adopted by the 2017 Vessel Tonnage Tax Law, mainly because the legislators took China's national shipping conditions into consideration when they drafted the law. Since there is serious unbalance among taxations of different related industries in China, the legislators of Chinese shipping tax must pay great attention to the balance of interests for those related industries.⁴⁰

Table 2: Vessel Tonnage Tax Systems of Global Shipping Countries⁴¹

Shipping Countries (Regions)		Vessel Tonnage Tax System
1	Greece	Modern vessel tonnage tax system
2	Japan	Modern vessel tonnage tax system
3	China	Traditional vessel tonnage tax system + policy incentives
4	Germany	Modern vessel tonnage tax system
5	Singapore	Free port + shipping enterprise tax preferential system
6	Hong Kong, China	Free port system
7	South Korea	Modern vessel tonnage tax system
8	U.S.A	Modern vessel tonnage tax system
9	Britain	Modern vessel tonnage tax system
10	Bermuda	Modern vessel tonnage tax system

Recently, China's import and export volume is ranked among the highest in the world. China's port handling capacity has always ranked first among other world-famous trade ports. Statistics show that container throughput of seven ports in China ranked among that of the ten largest ports in the world in 2015.⁴² As China

is both one of the largest shipping and trading countries in the world, just casual adoption of modern vessel tonnage tax system may have serious adverse effects on the balance between shipping enterprises, cargo owners, and ports.

4. Influence of Vessel Tonnage Tax on the Shipping Industry and Extraterritorial Experience: A Comparative Perspective

A. Influence of Vessel Tonnage Tax Law on Chinese Registered Vessels

Following the Vessel Tonnage Tax Law, except for taxable vessels who can enjoy tonnage tax-free treatment, the vessel tonnage tax collection will be applied to not only mainland registered Chinese vessels, which are chartered by foreign businessmen and used by Chinese and foreign joint ventures, but also other state-owned mainland registered vessels engaged in international voyages. In this case, the tax burden on mainland registered Chinese ships engaged in international voyages is increasing. Under the current tax system, no such provision stipulates that vessels paying tonnage tax do not have to pay additional vehicle and vessel tax.⁴³ Under the new tax system, Hong Kong and Macao registered non-motorized vessels (except for non-motorized barges) are not required to pay vessel tonnage tax, while Hong Kong and Macao registered motorized vessels sailing on the mainland-Hong Kong-Macao routes do not have to pay tonnage tax either.⁴⁴ However, other Hong Kong and Macao registered motorized vessels (including non-motorized barges) still need to pay a tonnage tax when they enter or leave the mainland ports. The vessel tonnage tax law, however, has no impact on the Taiwan registered vessels.

B. Influence of Vessel Tonnage Tax Law on Foreign registered Vessels

Under the current vessel tonnage tax system, the tonnage tax burden can be lightened for the foreign registered vessels that frequently enter and leave China, if they choose the tonnage tax license with the period of one year. For vessels that occasionally enter or leave our country, the tonnage tax burden varies according to their different tonnage tax licenses.⁴⁵

C. Vessel Tonnage Tax System Reform in Britain and India: A Comparative Aspect

1. Vessel Tonnage Tax System Reform in Britain

Britain has more mature and better experiences in tonnage tax system reform. Her experience can thus provide some significance to build and improve China's vessel tonnage tax system. There are two main advantages of the British tonnage tax policy. First, the British government has a very simple method of calculating the tonnage tax system to levy the tax.⁴⁶ Moreover, the relatively low vessel tonnage tax rate can attract more foreign vessels to register in Britain,⁴⁷ which is conducive to expanding the British commercial fleet. Second, British shipping companies are paying tax only according to the tonnage of the vessels. If the operating profit increases and the amount of taxes to be paid remains the same, then the profits of shipping companies will inevitably increase. As a result, the vessel tonnage tax system of Britain encourages shipping enterprises to continuously enhance the optimization and development of the fleet structure and to improve their management.⁴⁸

2. Vessel Tonnage Tax System Reform in India

As a developing country, India has implemented a new vessel tonnage tax system since 2005.⁴⁹ India's new tonnage tax system maintains that shipping enterprises enjoying this policy must establish their businesses in India and engage in the main business of ocean shipping.⁵⁰ According to the new Indian vessel tonnage tax law, shipping enterprises can pay either a tonnage tax or corporate tax instead of enterprise income tax.⁵¹ In this regard, once the tax category is determined and chosen, the Indian government shall apply the same category for the next ten years. Under this new system, the tax amount paid by shipping enterprises is determined by the total tonnage of the fleet, not by the company's operating profit.⁵² Under the new vessel tonnage tax law, the shipping enterprises could take less burden of paying tax, which has attracted more vessels to register in India. According to the data from the United Nations Conference on Trade and Development, as of January 2010, 83 percent of vessels controlled by India had hung the flag of India.⁵³ It not only effectively solved the problem of hanging a flag of convenience, but also promoted the rapid development of shipbuilding, ship repair, ship chartering, warehousing, freight forwarding, integrated logistics, and other related industries.⁵⁴

5. Deficiency of China's Vessel Tonnage Tax System and Suggestions for Improvement

A. Deficiency of China's Vessel Tonnage Tax System

1. Absence of Preferential Legal Provisions on Vessel Tonnage Tax Collection
According to Article 3 of China's Vessel Tonnage Tax Law, the vessel tonnage tax rate is divided into ordinary and preferential grade. The law provides nine scopes of tax relief and a few other preferential policies. Even though the tax agreements and maritime agreements are signed between China and foreign countries, the income obtained by Chinese shipping enterprises from international freight transport will have a different degree of relief in the countries designated by the other party. However, it is mostly limited to the scope of income tax. The indirect taxes related to it still cannot be reduced.⁵⁵

The co-existence of vehicle and vessel tax and vessel tonnage tax in China, as well as the big difference in tax burden, may easily lead to the loss of Chinese registered vessels. In terms of maritime transport, China has been separating management of coastal transportation from international ocean transportation for a long time. Vessels engaged in coastal transportation only have to pay vehicle and vessel tax, while vessels engaged in international ocean transportation have to pay the vehicle and vessel tax as well as the vessel tonnage tax at the same time. As a result, different taxes are levied on the vessels hanging the same Five-starred Red Flag. As a result, the tax burden is quite different.

2. Heavy Tax Burden

Compared with other maritime powers, the current tax policy on the shipping industry in China is characterized by a high tax burden and a large number of taxable items. Internal and external imbalance aggravates the tax burden of the enterprise. As a result, fewer shipping enterprises would register their vessels in China, which gradually lose its shipping capacity. According to the data, the tonnage of Chinese funded vessels hanging a flag of convenience reached 114.09 million DWT in 2014, accounting for 61.9 percent of the total fleet deadweight tonnage.⁵⁶ The tonnage of Chinese funded vessels hanging a foreign flag reached 1125.89 million DWT in 2014, which accounted for 63 percent of the total vessels of such tonnage in China.⁵⁷ The tax burden of Chinese shipping

enterprises is heavier than other shipping countries. Take the enterprise engaged in international ocean freight transportation as an example. In the whole business process, the shipping enterprise's tax burden includes enterprise income tax (with an ordinary tax rate of 25 percent), value-added tax (on August 1, 2013, after the "the conversion of business tax to value-added tax," the tax rate of 11 percent was applied to the transportation industry), vehicle and vessel tax (according to the provisions of the 2011 Vehicle and Vessel Tax Law, China's vessel owners and vessel managers have to pay the vehicle and vessel tax: RMB 3-6 per net tonnage is levied on the motorized vessels), and vessel tonnage tax (it is also necessary for international shipping vessels to pay vessel tonnage tax on entering and leaving the customs area).⁵⁸

B. Suggestions for Improving China's Vessel Tonnage Tax System

1. Explore to Implement the Modern Vessel Tonnage Tax System

China is a large maritime country, but not a maritime power mainly because of the heavy tax burden. This is not only the key factor degrading the competitiveness of Chinese shipping enterprises, but also gradually decreasing the shipping capacity of the registered vessels.⁵⁹ The implementation of the modern tonnage tax system represents the transformation from collecting property tax to income tax. Therefore, the system should be implemented step-by-step from a single spot to the whole country.⁶⁰ At present, Shanghai is quickly designing a world-class shipping center. A series of preferential tax policies for the shipping industry have appeared publicly. Under the superior policy environment, Shanghai can be used as a pilot city to implement the modern vessel tonnage tax system.⁶¹ After a few years of implementation, China should support all the measures. Once the modern tonnage system is adopted, it can be extended to all ports of the country.

2. Replacing the Enterprise Income Tax with Vessel Tonnage Tax

When China operates the internationally accepted vessel tonnage tax system, it needs to change the current tonnage system of property tax - using the profit tax levied based on net tonnage to replace the enterprise income tax. China should calculate the effective and practicable net tonnage profit. If a shipping enterprise has more than one vessel, China should add the annual taxable profit of each vessel together and then multiply the sum total by the enterprise income tax

rate. Otherwise, referring to Hong Kong's practice, China could levy enterprise income tax on its shipping income only. The implementation of the policy should be carried out steadily. Because China's tax system is mainly based on turnover tax, it is not feasible to change the current tax system on a large scale. Yet, China could first conduct pilot projects in areas with favorable conditions.⁶² The pilot area should be a shipping center with a developed shipping industry.

Today, Shanghai is building itself into an international shipping center. The State Council has proposed that Shanghai should explore to establish a comprehensive pilot area for the development of international shipping.⁶³ Moreover, Shanghai has publicly addressed a series of preferential tax policies for the shipping industry. If succeeded, Shanghai would be the best choice to be the pilot area for implementing the modern vessel tonnage tax system.

3. Changing the Tax Categories and Adjusting the Tax Rate

According to the modern tonnage tax system, China should convert the tonnage tax into the income tax. It means the traditional object of taxation will be transformed from a single vessel to the enterprise legal person owning the vessel. Enterprises can choose to pay enterprise income tax or tonnage tax. Then, China may not only abolish the business tax and additional taxes so as to lighten the tax burden, but also facilitate the collection and management procedure more conveniently.⁶⁴

6. Conclusion

Due to the past national conditions of China, its shipping industry was big but not strong enough. Except for Cosco Group, China Shipping and a few other influential shipping enterprises, most of them had limited strength. Although China's foreign trade is generally surplus, the shipping industry gets serious deficit. As the number of highly competent people cannot satisfy the fast development of the shipping industry, its tonnage tax system is thus quite different from that of the other countries. Because China's position in the world economy and its trade pattern have been changing continuously, Chinese legislators have also paid attention to the reform and improvement of the vessel

tonnage tax system. After various revisions and improvements, China has finally improved its vessel tonnage tax system. The Vessel Tonnage Tax Law, which entered into force on July 1, 2018, would strengthen the principle of statutory taxation applied to China's vessel tonnage tax system. The vessel tonnage tax system is determined by the economic ground of a country's shipping industry. The shipping economy has inherently an international, holistic, and infectious nature. The vessel tonnage tax system adopted by other countries generally have an influence on the tonnage tax system in China, which will improve China's tonnage tax system further. China should actively explore the means and route for transforming the traditional vessel tonnage tax system into the modern tonnage tax system which will conform to its economic conditions.

Annex: Table of Taxable Items and Tax Rates for Tonnage Tax

Taxable Items (by the Net Tonnage of a Vessel)	Tax Rates (Yuan/Net Ton)						Remarks
	General Tax Rate (by the Term of a Tonnage Tax Certificate)			Preferential Tax Rate (by the Term of a Tonnage Tax Certificate)			
	One year	90 days	30 days	One year	90 days	30days	
Not more than 2,000 net tons	12.6	4.2	2.1	9.0	3.0	1.5	1. For a tugboat, each kilowatt of its engine power is converted to the net tonnage of 0.67 ton. 2. If a net tonnage certificate cannot be provided for a yacht, each kilowatt of its engine power is converted to the net tonnage of 0.05 ton. 3. Tax on a tugboat or a non-motor-powered barge shall be calculated and collected at 50% of the tax rate for a vessel with the same net tonnage.
More than 2,000 net tons nor more than 10,000 net tons	24.0	8.0	4.0	17.4	5.8	2.9	
More than 10,000 net tons nor more than 50,000 net tons	27.6	9.2	4.6	19.8	6.6	3.3	
More than 50,000 net tons	31.8	10.6	5.3	22.8	7.6	3.8	

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2. Vessel Tonnage Tax Law art. 9. It stipulates: "The following vessels shall be exempt from tonnage tax: (1) vessels with a taxable amount of 50 yuan or less; (2) empty vessels that enter the port for the first time and whose ownership is obtained from overseas by means such as purchase, donation or inheritance; (3) vessels that do not load or unload passengers and cargo within twenty-four hours after the expiration date of the tonnage tax license; (4) non motor vessels (excluding non-motor barges); (5) vessels for fishing and breeding on the water; (6) vessels for refuge, epidemic prevention and isolation, repair, alteration, operation termination or dismantling that do not load or unload passengers and cargo; (7) dedicated or expropriated vessels for armies or armed police forces; (8) police vessels; (9) vessels of foreign embassies and consulates in China, representative offices of international organizations in China and their related personnel that should be exempt from tax in accordance with the law; (10) other vessels stipulated by the State Council. As to the 10th tax exemption provision of the preceding article, the State Council shall report to the Standing Committee of the National People's Congress for the record."
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