
Introduction of Environmental Protection Tax

The report of the 19th CPC National Congress put forward the goal and task of speeding up the reform in the ecological civilization system and building a Beautiful China. The Central Economic Work Conference held in December 2017 made arrangements for fighting against pollution. To this end, a variety of means including legal means and economic means are needed to promote energy conservation, emission reduction and industrial restructuring of enterprises. On December 25, 2016, the 25th Session of the Twelfth Standing Committee of the National People's Congress examined and adopted the *Environmental Protection Tax Law of the People's Republic of China* (hereinafter referred to as the "Environmental Protection Tax Law"), which came into force on January 1, 2018. Recently, the State Council has promulgated the *Regulations of the People's Republic of China on Enforcement of the Environmental Protection Tax Law* (hereinafter referred to as the Implementation Regulations). The Environmental Protection Tax is China's first independent environmental tax that explicitly targets environmental protection. It is of great significance for building a green financial and taxation system, regulating the pollution control of polluters and establishing a green production and consumption system.

1. Issue regulations to ensure smooth implementation of the environmental protection tax law

From June to July 2017, the Ministry of Finance, the State Administration of Taxation and the Ministry of Environmental Protection had solicited opinions from the public on the revised version of the implementation regulations. In November, the Legislative Affairs Office of the State Council solicited comments from relevant central government units, the people's governments of all provinces (autonomous regions and municipalities directly under the Central Government) and relevant trade organizations and enterprises on the draft of the implementation regulations submitted for review. During the formulation of the implementation regulations, they fully implemented the statutory principle of taxation, extensively referred to the views of the parties, built up social consensus, and actively promoted scientific legislation, democratic legislation and law-based legislation.

The implementation regulations has refined and clarified the contents of the environmental protection tax law, including the scope of urban and rural sewage treatment sites established according to law, the determination of solid waste emissions, punitive regulations on the illegal behavior of taxpayers, standards and conditions for tax cuts, and abnormality in contents of the information sent to each other by competent authorities and tax declaration data.

2. Provinces (autonomous regions and municipalities directly under the Central Government) release applicable taxation standards and taxable pollutants

successively

The *Environmental Protection Tax Law* gives local agencies the authority to set the specific applicable tax standards for atmospheric and water pollutants and determine the number of taxable pollutant items. At present, the provinces (autonomous regions or municipalities directly under the Central Government) have successively formulated and passed the standards for environmental protection tax amounts of taxable air pollutants and water pollutants and the number of levied items. 15 provinces including Liaoning, Jilin, Anhui, Fujian, Jiangxi, Shaanxi and Xinjiang are basically levied according to the minimum standard for environmental protection tax, that is, each pollution equivalent is 1.2 yuan and 1.4 yuan respectively. Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Henan, Shandong and other areas have higher tax rates. For example, Beijing levies taxes in accordance with the highest tax standards. In Hebei, major air pollutants and water pollutants in the environmental protection tax are divided into three categories by the geographical area. The highest-grade air pollutants have a pollution equivalent of 9.6 yuan, and water pollutants have a pollution equivalent of 11.2 yuan; the tax standard for sulfur dioxide and nitrogen oxides in Shanghai is 6.65 yuan and 7.6 yuan respectively, while that in Shandong province is 6 yuan per pollution equivalent. Liaoning, Yunnan and Shanghai set up transitional taxes, while Hebei and Jiangsu set different amounts of tax. All provinces (autonomous regions and municipalities directly under the Central Government) don't increase the number of taxable pollutant items in the same vent.

3. Tax and environmental protection departments at all levels cooperate fully

In 2017, the Ministry of Environmental Protection and the State Administration of Taxation closely cooperated in the drafting of implementation regulations, the construction of a tax-related information sharing platform, the development of emission coefficients and material balance calculation methods and the mutual delivery of management information, and jointly deployed the environmental protection tax collection and management work, after which related supporting methods will be issued successively. Local environmental protection departments and tax authorities have launched comprehensive docking for the preparation of environmental protection tax, and the construction of the sharing platform as well as the transfer of sewage fee data are in progress.

4. Carry out emission charges for volatile organic compounds

The emission charges for volatile organic compounds have been piloted in several industries of some areas since October 2015. In the study on environmental protection fee-to-tax modification, the multi-party feasibility study shows that due to the immature tax conditions, the environmental protection tax law has not incorporated volatile organic compounds into the tax. Article 27 of the *Environmental Protection Tax Law* stipulates that no sewage charges shall be levied since the effective date of

the law. The implementation regulations also clearly stipulate that after it came into force on January 1, 2018, the *Regulations on Collection and Use of Sewage Charges* promulgated by the State Council on January 2, 2003 would be repealed at the same time. Accordingly, from January 1, 2018, the environmental protection tax will be levied and the discharge fee will be suspended, including the emission charges for volatile organic pollutants. The Ministry of Environmental Protection, together with other relevant departments, will carry out investigation and evaluation on the pilot project on collecting pollutants of volatile organic compounds and conduct research and demonstration on the necessity, feasibility and system design of incorporating the volatile organic compounds into environmental protection taxes.

